

The Heritage Foundation and Affiliates

Consolidated Financial Report
December 31, 2023

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

Independent Auditor's Report

Board of Trustees
The Heritage Foundation

Opinion

We have audited the consolidated financial statements of The Heritage Foundation and Affiliates (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

RSM US LLP

Washington, D.C.
July 29, 2024

The Heritage Foundation and Affiliates

Consolidated Statements of Financial Position December 31, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,798,545	\$ 10,186,081
Contributions receivable	10,511,271	8,357,919
Prepayments and other assets	2,769,249	2,607,579
Total current assets	27,079,065	21,151,579
Long-term assets:		
Investments	251,709,626	236,066,956
Interest rate swaps	5,357,626	5,980,927
Deferred compensation investments	2,868,060	2,708,356
Contributions receivable, net	16,353,148	19,964,832
Operating lease right-of-use assets	357,837	551,946
Property and equipment, net	111,328,040	101,240,569
Total long-term assets	387,974,337	366,513,586
Total assets	\$ 415,053,402	\$ 387,665,165
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 9,322,138	\$ 8,791,794
Current portion of notes payable	1,440,195	1,494,077
Current portion of operating lease liabilities	159,359	191,160
Total current liabilities	10,921,692	10,477,031
Long-term liabilities:		
Notes payable, net of current portion	45,375,085	33,717,332
Operating lease liabilities, net of current portion	208,998	368,357
Deferred compensation obligations	2,868,060	2,708,356
Split-interest obligations	7,995,741	8,406,218
Total long-term liabilities	56,447,884	45,200,263
Total liabilities	67,369,576	55,677,294
Net assets:		
Without donor restrictions:		
Board designated	129,060,860	122,578,958
Undesignated	113,560,630	105,347,967
Total without donor restrictions	242,621,490	227,926,925
With donor restrictions	105,062,336	104,060,946
Total net assets	347,683,826	331,987,871
Total liabilities and net assets	\$ 415,053,402	\$ 387,665,165

See notes to consolidated financial statements.

The Heritage Foundation and Affiliates

Consolidated Statements of Activities Years Ended December 31, 2023 and 2022

	2023	2022
Changes in net assets without donor restrictions:		
Support and revenue:		
Public support—contributions	\$ 93,666,305	\$ 69,563,555
Investment return, net	18,664,050	(33,329,669)
Rental and other income	2,220,045	8,834,510
Net assets released from restriction—satisfaction of time or program restrictions	9,556,314	3,732,620
Total support and revenue in net assets without donor restrictions	124,106,714	48,801,016
Expenses:		
Program services:		
Policy	40,435,136	31,751,492
Media, government relations, and outreach	13,998,823	11,360,659
Educational programs and communications	34,650,398	32,837,470
Total program services	89,084,357	75,949,621
Supporting services:		
Management and general	3,339,507	1,910,102
Fundraising	16,988,285	16,402,799
Total supporting services	20,327,792	18,312,901
Total expenses	109,412,149	94,262,522
Change in net assets without donor restrictions	14,694,565	(45,461,506)
Changes in net assets with donor restrictions:		
Contributions	3,432,419	27,336,458
Investment return, net	7,100,411	(11,255,847)
Change in value of split-interest agreements	(482,037)	(70,748)
Change in value of contributions and irrevocable trusts	506,911	(2,057,524)
Contributions rescinded	-	(42,504)
Net assets released from restrictions	(9,556,314)	(3,732,620)
Change in net assets with donor restrictions	1,001,390	10,177,215
Change in net assets	15,695,955	(35,284,291)
Net assets:		
Beginning	331,987,871	367,272,162
Ending	\$ 347,683,826	\$ 331,987,871

See notes to consolidated financial statements.

The Heritage Foundation and Affiliates

Consolidated Statement of Functional Expenses Year Ended December 31, 2023

	Program Services				Supporting Services			Total Expenses
	Policy	Media, Government Relations, and Outreach	Educational Programs and Communications	Total	Management and General	Fundraising	Total	
Salaries	\$ 20,321,816	\$ 5,433,171	\$ 7,353,049	\$ 33,108,036	\$ 716,247	\$ 5,326,755	\$ 6,043,002	\$ 39,151,038
Consultants and independent contractors	4,639,275	2,002,422	5,330,944	11,972,641	405,066	2,393,285	2,798,351	14,770,992
Fringe benefits	4,769,118	1,543,610	1,946,293	8,259,021	158,820	1,727,427	1,886,247	10,145,268
Printing and copying	294,639	84,336	4,433,464	4,812,439	21,840	1,331,088	1,352,928	6,165,367
Postage and shipping	41,121	27,683	4,833,844	4,902,648	1,911	1,239,527	1,241,438	6,144,086
Conferences and meetings	3,058,879	1,975,532	2,099,488	7,133,899	477,788	773,134	1,250,922	8,384,821
Depreciation	1,882,535	651,742	1,609,340	4,143,617	572,493	790,922	1,363,415	5,507,032
Advertising	254,679	94,221	376,035	724,935	65,929	568,667	634,596	1,359,531
Occupancy	1,748,097	607,148	1,537,339	3,892,584	523,345	304,424	827,769	4,720,353
Taxes, licenses and bank fees	48,734	18,063	149,446	216,243	10,667	418,833	429,500	645,743
Information technology	916,044	333,425	1,527,632	2,777,101	88,337	1,025,119	1,113,456	3,890,557
Professional fees	688,106	127,976	321,323	1,137,405	86,679	56,779	143,458	1,280,863
Supplies	36,473	16,924	36,978	90,375	5,069	11,992	17,061	107,436
Travel	758,315	379,155	238,431	1,375,901	34,505	476,750	511,255	1,887,156
Staff training	41,236	4,910	143,259	189,405	2,458	6,280	8,738	198,143
Dues and subscriptions	503,175	445,322	519,161	1,467,658	83,548	383,309	466,857	1,934,515
Photography and video	8,205	89,019	273,024	370,248	2,056	21,115	23,171	393,419
Interest expense	168,890	58,470	144,380	371,740	38,666	70,957	109,623	481,363
Insurance	70,165	24,291	81,037	175,493	37,057	9,085	46,142	221,635
Honoraria and writer's fees	103,900	-	113,717	217,617	-	-	-	217,617
Books and products	44,641	15,814	26,624	87,079	4,476	47,864	52,340	139,419
Miscellaneous	12,093	5,589	10,590	28,272	2,550	4,973	7,523	35,795
Other programs and grants	25,000	60,000	1,545,000	1,630,000	-	-	-	1,630,000
Total expenses	\$ 40,435,136	\$ 13,998,823	\$ 34,650,398	\$ 89,084,357	\$ 3,339,507	\$ 16,988,285	\$ 20,327,792	\$ 109,412,149

See notes to consolidated financial statements.

The Heritage Foundation and Affiliates

Consolidated Statement of Functional Expenses Year Ended December 31, 2022

	Program Services				Supporting Services			Total Expenses
	Policy	Media, Government Relations, and Outreach	Educational Programs and Communications	Total	Management and General	Fundraising	Total	
Salaries	\$ 18,501,649	\$ 4,501,019	\$ 6,443,095	\$ 29,445,763	\$ 582,151	\$ 4,884,282	\$ 5,466,433	\$34,912,196
Consultants and independent contractors	1,445,099	1,667,214	3,702,961	6,815,274	70,095	2,873,204	2,943,299	9,758,573
Fringe benefits	4,422,483	1,132,493	1,997,508	7,552,484	148,522	1,302,711	1,451,233	9,003,717
Printing and copying	61,413	66,141	5,506,223	5,633,777	5,757	1,474,917	1,480,674	7,114,451
Postage and shipping	26,681	37,018	4,286,065	4,349,764	2,445	1,209,745	1,212,190	5,561,954
Conferences and meetings	1,588,764	1,603,861	1,143,132	4,335,757	173,714	751,327	925,041	5,260,798
Depreciation	1,263,532	452,091	1,303,273	3,018,896	75,987	652,776	728,763	3,747,659
Advertising	419,309	143,553	1,848,848	2,411,710	104,919	656,359	761,278	3,172,988
Occupancy	1,484,158	552,017	1,571,809	3,607,984	493,137	289,318	782,455	4,390,439
Taxes, licenses and bank fees	39,304	16,056	157,123	212,483	8,104	351,645	359,749	572,232
Information technology	818,987	320,784	1,548,774	2,688,545	60,305	1,139,653	1,199,958	3,888,503
Professional fees	132,856	49,545	154,412	336,813	37,200	29,620	66,820	403,633
Supplies	29,677	15,288	32,603	77,568	4,194	11,742	15,936	93,504
Travel	700,155	305,013	300,008	1,305,176	39,018	432,087	471,105	1,776,281
Staff training	51,509	9,615	118,969	180,093	5,913	14,518	20,431	200,524
Dues and subscriptions	288,854	264,566	402,628	956,048	41,133	116,955	158,088	1,114,136
Photography and video	7,767	32,916	192,083	232,766	1,123	19,378	20,501	253,267
Interest expense	216,579	77,492	223,391	517,462	13,025	111,892	124,917	642,379
Insurance	66,945	23,953	90,106	181,004	37,461	9,409	46,870	227,874
Honoraria and writer's fees	72,350	-	13,093	85,443	-	1,500	1,500	86,943
Books and products	28,690	15,570	218,140	262,400	4,178	63,626	67,804	330,204
Miscellaneous	54,731	2,704	8,226	65,661	1,721	6,135	7,856	73,517
Other programs and grants	30,000	71,750	1,575,000	1,676,750	-	-	-	1,676,750
Total expenses	\$ 31,751,492	\$ 11,360,659	\$ 32,837,470	\$ 75,949,621	\$ 1,910,102	\$ 16,402,799	\$ 18,312,901	\$94,262,522

See notes to consolidated financial statements.

The Heritage Foundation and Affiliates
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 15,695,955	\$ (35,284,291)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gain) loss on investments	(23,546,803)	45,842,665
Change in value of split-interest obligations	(482,037)	(70,748)
Change in discount on contributions receivable	(685,816)	1,857,781
Change in value of terminated split-interest obligations	639,762	393,294
Depreciation	5,507,032	3,747,659
Loss on disposal of assets	365,965	60,141
Change in value of interest rate swap	623,301	(5,462,412)
Contributions rescinded	-	42,504
Contributions restricted to investment in perpetuity	(371,135)	(1,301,000)
Contributions restricted to capital expenditures	-	(200,000)
Change in operating leases	2,949	7,571
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	2,144,148	(24,155,314)
Prepayments and other assets	(161,670)	(357,388)
Increase (decrease) in:		
Accounts payable and accrued expenses	530,344	(581,864)
Net cash provided by (used in) operating activities	261,995	(15,461,402)
Cash flows from investing activities:		
Purchases of investments	(34,409,870)	(26,388,044)
Sales of investments	42,314,003	39,727,669
Purchases of property and equipment	(15,960,468)	(8,915,918)
Net cash (used in) provided by investing activities	(8,056,335)	4,423,707
Cash flows from financing activities:		
Proceeds from notes payable	13,000,000	8,500,000
Principal payments on notes payable	(1,396,129)	(5,333,457)
Proceeds from the line of credit	7,645,726	6,921,572
Payments on the line of credit	(7,645,726)	(6,921,572)
Contributions restricted to investment in perpetuity	371,135	1,301,000
Contributions restricted to capital expenditures	-	200,000
Payments on split interest obligations	(568,202)	(1,162,598)
Proceeds from split interest obligations	-	2,128,272
Net cash provided by financing activities	11,406,804	5,633,217
Net increase (decrease) in cash and cash equivalents	3,612,464	(5,404,478)
Cash and cash equivalents:		
Beginning	10,186,081	15,590,559
Ending	\$ 13,798,545	\$ 10,186,081
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 1,543,334	\$ 1,390,933

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:

Principles of consolidation: The accompanying consolidated financial statements include the accounts of The Heritage Foundation, 3rd Street Properties, LLC, Massachusetts Avenue Properties, LLC and Intern Housing, LLC. 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 or ASC). As required by the Not-for-Profit Entities topic of the Codification, 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 as of December 31, 2023 and 2022, totaled \$129,060,860 and \$122,578,958, 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. 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. As of December 31, 2023 and 2022, 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 value at the date of donation, less accumulated depreciation. Depreciation is recognized on a straight-line basis over estimated useful lives of three to 39 years for building and building improvements, and three 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 2023 or 2022.

Derivative financial instruments: The Foundation has entered into 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.

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.

Leases: The Foundation determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Foundation also considers whether its service arrangements include the right to control the use of an asset.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

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

The Foundation recognizes most leases on its consolidated statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the consolidated statements of activities.

The Foundation made an accounting policy election available not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of ASC Topic 842, Leases). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives received. To determine the present value of lease payments, the Foundation made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed-rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Foundation has made an accounting policy election to account for lease and nonlease components in its contracts as a single lease component for its real estate and equipment asset classes. The nonlease components typically represent additional services transferred to the Foundation, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

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, 2023 and 2022. 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.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

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

Allocation of joint costs: The Foundation incurred joint costs of \$13,512,132 and \$13,688,327 for the years ended December 31, 2023 and 2022, respectively. The Foundation allocated these joint costs among program and fundraising expenses as follows:

	2023	2022
Educational programs expense	\$ 11,902,357	\$ 12,082,929
Fundraising expense	1,609,775	1,605,398
	<u>\$ 13,512,132</u>	<u>\$ 13,688,327</u>

Advertising costs: Advertising costs are expensed when incurred. Total advertising expense was \$1,359,531 and \$3,172,988 for the years ended December 31, 2023 and 2022, respectively.

Use of estimates: The preparation of consolidated 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 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.

Subsequent events: The Foundation has evaluated subsequent events through July 29, 2024, the date on which the consolidated financial statements were available to be issued. See Note 13 for a discussion of subsequent events.

Note 2. Contributions Receivable

The following are unconditional promises to give as of December 31, 2023 and 2022:

	2023	2022
Due in less than one year	\$ 10,511,271	\$ 8,357,919
Due in one to five years	17,617,500	21,915,000
Total to be received	28,128,771	30,272,919
Less discounting for multi-year promises to give (rates of 1.11%–3.13%)	(1,264,352)	(1,950,168)
	<u>\$ 26,864,419</u>	<u>\$ 28,322,751</u>

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

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.

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.

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.

Corporate bonds and U.S. Government securities are classified as Level 2 instruments because they comprised assets that are not publicly traded and valued using observable market-based inputs or unobservable inputs corroborated by market data.

As of December 31, 2023 and 2022, 80% 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 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 Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

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 tables below summarize the Foundation's financial assets and liabilities measured at fair value on a recurring basis, as of December 31, 2023:

Description	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:				
Common stocks—multiple sectors	\$ 51,833,329	\$ 51,833,329	\$ -	\$ -
Mutual funds:				
Equity mutual funds:				
Index funds	8,728,109	8,728,109	-	-
Established international	286,034	286,034	-	-
Multi-strategy	32,773,394	32,773,394	-	-
Total equity mutual funds	41,787,537	41,787,537	-	-
Fixed income mutual funds:				
Index funds	5,453,781	5,453,781	-	-
Multi-strategy	9,321,299	9,321,299	-	-
Emerging markets	1,617,225	1,617,225	-	-
Total fixed income mutual funds	16,392,305	16,392,305	-	-
Total mutual funds	58,179,842	58,179,842	-	-
Total publicly traded securities	110,013,171	110,013,171	-	-
Corporate bonds and U.S. Government securities	22,683,925	-	22,683,925	-
Alternative investments valued using a net asset per share or equivalent as a practical expedient (a)	83,978,700	-	-	-
Common trust funds valued using a net asset value per share or equivalent as a practical expedient (a)	9,424,938	-	-	-
Deferred compensation assets:				
Multi-strategy equity PSAs valued using a practical expedient (a)	2,868,060	-	-	-
Total deferred compensation assets valued using a practical expedient	2,868,060	-	-	-
Cash equivalents	25,608,892	25,608,892	-	-
Total investments and deferred compensation assets	254,577,686	135,622,063	22,683,925	-
Interest rate swap asset	5,357,626	-	5,357,626	-
Total assets at fair value	\$ 259,935,312	\$ 135,622,063	\$ 28,041,551	\$ -
Deferred compensation obligations (a)	\$ 2,868,060	\$ -	\$ -	\$ -
Total liabilities	\$ 2,868,060	\$ -	\$ -	\$ -

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, as of December 31, 2022:

Description	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:				
Common stocks—multiple sectors	\$ 48,760,163	\$ 48,760,163	\$ -	\$ -
Mutual funds:				
Equity mutual funds:				
Index funds	7,000,294	7,000,294	-	-
Established international	455,690	455,690	-	-
Multi-strategy	29,865,708	29,865,708	-	-
Total equity mutual funds	37,321,692	37,321,692	-	-
Fixed income mutual funds:				
Index funds	17,209,106	17,209,106	-	-
Multi-strategy	11,574,131	11,574,131	-	-
Emerging markets	660,201	660,201	-	-
Total fixed income mutual funds	29,443,438	29,443,438	-	-
Total mutual funds	66,765,130	66,765,130	-	-
Total publicly traded securities	115,525,293	115,525,293	-	-
Corporate bonds and U.S. Government securities	19,993,162	-	19,993,162	-
Alternative investments valued using a net asset per share or equivalent as a practical expedient (a)	70,474,948	-	-	-
Common trust funds valued using a net asset value per share or equivalent as a practical expedient (a)	9,100,880	-	-	-
Deferred compensation assets:				
Multi-strategy equity PSAs valued using a practical expedient (a)	2,708,356	-	-	-
Total deferred compensation assets valued using a practical expedient	2,708,356	-	-	-
Cash equivalents	20,972,673	20,972,673	-	-
Total investments and deferred compensation assets	238,775,312	136,497,966	19,993,162	-
Interest rate swap asset	5,980,927	-	5,980,927	-
Total assets at fair value	\$ 244,756,239	\$ 136,497,966	\$ 25,974,089	\$ -
Deferred compensation obligations (a)	\$ 2,708,356	\$ -	\$ -	\$ -
Total liabilities	\$ 2,708,356	\$ -	\$ -	\$ -

- (a) In accordance with Accounting Standards Update 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 as of December 31, 2023 and 2022:

	Fair Value at 2023	Fair Value at 2022	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global Equity Opportunistic ^(a)	\$ 39,793,901	\$ 35,701,019	N/A	Quarterly	30 days
Private Equity ^(b)	18,965,200	17,801,492	\$ 4,254,308	N/A ^(c)	N/A ^(c)
Event-Driven ^(d)	14,268,072	12,375,314	N/A	Quarterly to Semi-annual	60 days
Multi-Strategy ^(d)	10,951,527	4,597,123	N/A	Monthly	30 days
Total	<u>\$ 83,978,700</u>	<u>\$ 70,474,948</u>			

- (a) Global Equity Opportunistic refers to investments in equity securities across worldwide markets, not restricted to specific regions or market capitalization.
- (b) 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.
- (c) 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.
- (d) Multi-strategy hedge fund that aims to generate attractive risk-adjusted returns through a balanced risk allocation across a diverse portfolio in predominantly liquid assets with both internal portfolio managers and external managed accounts.

The following summarizes net investment return for the years ended December 31, 2023 and 2022:

	2023	2022
Net realized and unrealized gain (loss)	\$ 23,546,803	\$ (45,842,665)
Interest and dividends	3,009,587	2,096,695
Investment fees	(791,929)	(839,546)
	<u>\$ 25,764,461</u>	<u>\$ (44,585,516)</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 as of December 31, 2023 and 2022:

	2023	2022
Land, building and improvements	\$ 135,716,048	\$ 138,026,351
Construction in progress	19,718,772	5,713,234
Office furniture and equipment	8,437,263	9,477,240
	<u>163,872,083</u>	<u>153,216,825</u>
Less accumulated depreciation	(52,544,043)	(51,976,256)
Property and equipment, net	<u>\$ 111,328,040</u>	<u>\$ 101,240,569</u>

Note 5. Notes Payable

Notes payable as of December 31, 2023 and 2022, are as follows:

	2023	2022
Notes payable	\$ 46,815,280	\$ 35,211,409
Less current portion	(1,440,195)	(1,494,077)
Notes payable, long-term	<u>\$ 45,375,085</u>	<u>\$ 33,717,332</u>

The total interest cost incurred during the years ended December 31, 2023 and 2022 was \$1,569,487 and \$1,390,933, respectively, of which \$1,088,126 and \$748,554, respectively, was capitalized as part of the cost of certain construction projects.

All notes payable are unsecured and require that the Foundation maintain a debt service coverage ratio (as defined by the lending institution) of at least 1.2 to 1 and unrestricted liquidity of at least \$65,000,000.

The Foundation had a \$6,500,000 note with a financial institution. The note was scheduled to be due on June 12, 2023. The outstanding liability of \$5,107,533 was paid in full during 2022. The interest rate on this loan was London Interbank Offered Rate (LIBOR) plus 1.37%; however, a forward starting interest rate swap with a term matching the note at an effective rate of 4.94% per annum. The interest rate swap agreement was terminated in conjunction with the loan payoff in 2022.

The Foundation has a \$7,000,000 note with a financial institution. As of December 31, 2023 and 2022, the outstanding liability totaled \$4,974,263 and \$5,211,409, 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. In 2022, the note was amended to replace LIBOR with the Secured Overnight Financing Rate (SOFR). The interest rate on this loan is the one-month SOFR plus 1.38%, which was 6.73% at December 31, 2023. An interest rate swap was also initiated with terms matching the note with an effective interest rate of 4.54%. The value of the interest rate swap asset was \$81,575 and \$160,842 as of December 31, 2023 and 2022, respectively.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 5. Notes Payable (Continued)

The Foundation also has a closed ended note with a financial institution totaling \$30,000,000 used to fund certain construction projects. The note allowed advances to be taken for 84 months from the date of commencement (the draw period) at a rate of LIBOR plus 1.50%. In 2022 the note was amended to replace LIBOR with SOFR. During the draw period, an unused fee of 12.5 basis points was assessed. At the end of the draw period, principal and interest became payable in 155 consecutive monthly installments on the outstanding principal balance based on a 20-year amortization beginning on January 1, 2023. The interest rate on this loan is the one-month SOFR plus 1.50%, which was 6.85% at December 31, 2023. Any unpaid principal and interest is due in full on the maturity date, which is November 30, 2035. As of December 31, 2023 and 2022, the outstanding balance of the note was \$28,841,017 and \$30,000,000, respectively. In 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. The value of the interest rate swap asset was \$5,276,051 and \$5,820,085 as of December 31, 2023 and 2022, respectively.

In 2022, the Foundation established a new note with a financial institution totaling \$25,000,000 used to fund certain construction projects. The note allows advances to be taken for 24 months from the date of commencement (the draw period) at a rate of the one-month SOFR plus 1.46%, which was 6.81% at December 31, 2023. 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 180 consecutive monthly installments on the outstanding principal balance based on a 15-year amortization beginning on January 1, 2025. Any unpaid principal and interest is due in full on the maturity date, which is December 1, 2039. As of December 31, 2023 the outstanding balance was \$13,000,000. There was no outstanding balance at December 31, 2022. In February 2023, the Foundation entered into an interest rate swap agreement with an effective interest rate of 4.85% commencing on December 31, 2024, and terminating on December 31, 2029.

As of December 31, 2023, minimum future principal payments under these notes are as follows:

Years ending December 31:

2024	\$ 1,440,195
2025	1,999,063
2026	2,069,690
2027	2,142,923
2028	5,831,888
Thereafter	33,331,521
	<u>\$ 46,815,280</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 the one-month SOFR plus 1.19%, which was 6.55% at December 31, 2023. It is unsecured and requires that the Foundation maintain a debt service coverage ratio of at least 1.2 to 1 and unrestricted liquidity of at least \$65,000,000. The line of credit matures on December 31, 2024, and there was no outstanding balance as of December 31, 2023 and 2022.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefits

Discretionary contribution plan: The Foundation provides a non-contributory discretionary contribution plan to all employees. In 2022 the plan was amended to reduce the service requirement from one year to six months, and the number of hours worked from 1,000 hours to 500 hours. There was no change to the age requirement, the employee must have attained the age of 21. Expenses for the plan were approximately \$2,835,000 and \$2,217,000 for the years ended December 31, 2023 and 2022, 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.

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 fair value of all deferred compensation investments and the related deferred compensation obligations to employees was \$2,868,060 and \$2,708,356 as of December 31, 2023 and 2022, 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 the District of Columbia enacted UPMIFA (the Act) 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 fair 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)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. The Foundation has interpreted the Act as permitting spending from an underwater fund, in accordance with the prudent measures required under the law. There were no deficiencies as of December 31, 2023. As of December 31, 2022, a deficiency existed in three individual donor-restricted endowment funds, which together have an original gift value of \$6,903,000, a current fair value of \$6,694,942, and a deficiency of \$208,058. These deficiencies resulted from both unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds, and continued appropriations for certain programs that were deemed prudent.

Net assets with donor restrictions as of December 31, 2023 and 2022, consist of the following:

	2023	2022
Temporary in nature, excluding endowment funds:		
Contributions restricted by passage of time	\$ 30,115,911	\$ 32,527,475
Total temporary in nature, excluding endowment funds	<u>30,115,911</u>	<u>32,527,475</u>
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	1,153,960	1,148,960
Haskell Robinson Endowment	1,804,500	1,703,000
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	201,318
Linda Boyce Haller Internship Endowment	200,000	200,000
Sims Intern Endowment	200,000	200,000
Alison and Dorothy Rouse Endowment	28,329,614	28,105,864
John and Virginia Rigsby Intern Fund	200,000	200,000
Steven M. Sass Endowment	40,885	-
Accumulated gains on endowment	6,203,397	3,161,578
Term endowment	25,855,000	25,855,000
Total endowment funds	<u>74,946,425</u>	<u>71,533,471</u>
Total net assets with donor restrictions	<u>\$ 105,062,336</u>	<u>\$ 104,060,946</u>

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, 2023 and 2022:

	2023		2022
	Net Assets With Donor Restrictions		Net Assets With Donor Restrictions
Beginning of year	\$ 71,533,471	\$	81,030,858
Investment return, net	5,398,246		(8,928,127)
Amounts appropriated for expenditure	(2,356,427)		(1,870,260)
Contributions	371,135		1,301,000
End of year	<u>\$ 74,946,425</u>	<u>\$</u>	<u>71,533,471</u>

Note 9. Leases

Lessee: The Foundation leases equipment and office space under noncancelable operating lease agreements. Some leases include one or more options to renew, generally at the Foundation's sole discretion, with renewal terms that can extend the lease term. In addition, certain leases contain termination options, where the rights to terminate are held by either the Foundation, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Foundation will exercise that option. The Foundation's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term. Total lease cost for the years ended December 31, 2023 and 2022 was \$200,601 and \$220,061, respectively.

At December 31, 2023 and 2022, the weighed-average remaining lease term for operating leases is 2.25 and 3.07 years, respectively. At December 31, 2023 and 2022, the weighted average discount rate for operating leases is 1.46% and 1.41%, respectively.

Supplemental cash flow information related to leases is as follows for the years ended December 31, 2023 and 2022:

	2023		2022
Cash paid for amounts included in measurement of lease liabilities:			
Operating cash outflows—payments on operating leases	\$ 197,648	\$	212,489
Right-of-use assets obtained in exchange for new lease obligations:			
Operating leases	<u>\$ -</u>	<u>\$</u>	<u>762,924</u>

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 9. Leases (Continued)

Future undiscounted cash flows for each of the next three years are as follows as of December 31, 2023:

Years ending December 31:		
2024	\$	163,481
2025		168,385
2026		42,405
Total lease payments		<u>374,271</u>
Less imputed interest		<u>(5,914)</u>
Total present value of lease liabilities	\$	<u><u>368,357</u></u>

Lessor: The Foundation leases space to third parties under noncancelable multi-year leases. The Foundation's rental income is primarily composed of payments defined under each lease agreement and are either subject to scheduled fixed increases or adjustments in rent based on the consumer price index.

Additionally, rental income includes variable payments for lessee reimbursements of property-related expenses and payments based on a percentage of tenant's sales. Lessor costs for certain services directly reimbursed by lessees are presented on a gross basis in revenues and expenses.

Future minimum lease payments to be received for all noncancelable leases for each of the five succeeding fiscal years are as follows as of December 31, 2023:

Years ending December 31:		
2024	\$	194,236
2025		215,073
2026		216,966
2027		218,915
2028		220,922
	\$	<u><u>1,066,112</u></u>

Note 10. Commitments and Contingencies

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 \$5,400,000. As of December 31, 2023 and 2022, the Foundation had medical claims accruals of approximately \$507,000 and \$466,000, respectively, which are included in accounts payable and accrued expenses on the consolidated statements of financial position.

Note 11. 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 a lease for office space that ended March 31, 2020. Subsequent to March 31, 2020, the lease for office space went month to month.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 11. Related-Party Transactions (Continued)

Lease revenue from the related entity totaled \$138,490 for 2023 and 2022.

Contracts for administrative services are on an annual basis and begin on January 1, each year. Administrative service contract income totaled \$1,752,606 and \$2,082,856 in 2023 and 2022, 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 \$3,500,000 and \$767,496 for the years ended December 31, 2023 and 2022, respectively. During the years ended December 31, 2023 and 2022, the Foundation provided a \$500,000 and \$400,000 contribution to the related entity, respectively, subject to an expenditure control agreement.

The Foundation received material 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, 2023 and 2022, in the ordinary course of business.

Note 12. Liquidity and Availability

The following represents the Foundation's financial assets as of December 31, 2023 and 2022, are as follows:

	2023	2022
Cash and cash equivalents	\$ 13,798,545	\$ 10,186,081
Contributions receivable, net	26,864,419	28,322,751
Investments	251,709,626	236,066,956
Total available liquidity	<u>292,372,590</u>	<u>274,575,788</u>
Less		
Board designated net assets*	129,060,860	122,578,958
Net assets with donor restrictions	105,062,336	104,060,946
	<u>234,123,196</u>	<u>226,639,904</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 58,249,394</u>	<u>\$ 47,935,884</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 13. Subsequent Event

In May 2024, the Foundation entered into a \$4,000,000 interest rate swap agreement, to secure a fix interest rate on a portion of its \$25,000,000 note payable (see Note 5). The agreement has an effective interest rate of 5.85% commencing on December 1, 2024, and terminating on December 1, 2039.