The Heritage Foundation and Affiliates

Consolidated Financial Report
December 31, 2015

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Trustees
The Heritage Foundation
Washington, D.C.

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, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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, 2015 and 2014, 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.

Other Matter
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Washington, D.C.
June 7, 2016

The Heritage Foundation and Affiliates

Consolidated Statements of Financial Position
December 31, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	**$ 4,660,363**	$ 6,807,296
Contributions receivable	**8,145,678**	13,367,690
Prepayments and other assets	**608,933**	878,644
Total current assets	**13,414,974**	21,053,630
Long-term assets:		
Investments	**182,144,559**	172,264,986
Deferred compensation investments	**2,393,742**	2,343,695
Contributions receivable, net	**3,378,177**	4,083,324
Property and equipment, net	**67,554,256**	60,574,654
Cash surrender value of insurance	**720,900**	725,584
Total long-term assets	**256,191,634**	239,992,243
Total assets	**$ 269,606,608**	$ 261,045,873
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 9,219,012**	$ 8,826,553
Notes payable	**533,072**	518,065
Total current liabilities	**9,752,084**	9,344,618
Long-term liabilities:		
Notes payable	**18,320,831**	18,688,885
Deferred compensation obligations	**2,393,742**	2,343,695
Split-interest obligations	**12,856,836**	13,526,999
Total long-term liabilities	**33,571,409**	34,559,579
Total liabilities	**43,323,493**	43,904,197
Net assets:		
Unrestricted:		
Board designated	**107,094,213**	109,836,527
Undesignated	**73,802,723**	60,401,926
Temporarily restricted – gifts from annuities, trusts and promises to give	**40,779,219**	43,503,223
Permanently restricted	**4,606,960**	3,400,000
	226,283,115	217,141,676
	$ 269,606,608	$ 261,045,873

See notes to consolidated financial statements.

The Heritage Foundation and Affiliates

Consolidated Statements of Activities
Years Ended December 31, 2015 and 2014

	2015	2014
Changes in unrestricted net assets:		
Support and revenue:		
Public support – contributions	**$ 76,045,217**	$ 84,017,642
Investment (loss) gain, net	**(99,228)**	9,890,624
Rental and other income	**2,259,589**	461,646
Net assets released from restriction – satisfaction of time or program restrictions	**13,077,591**	7,148,500
Total unrestricted support and revenue	**91,283,169**	101,518,412
Expenses:		
Program services:		
Research	**24,556,292**	24,007,467
Media and government relations	**8,511,139**	8,516,406
Educational programs	**31,131,429**	29,131,618
Total program services	**64,198,860**	61,655,491
Supporting services:		
Management and general	**2,377,143**	2,508,263
Fundraising	**14,048,683**	17,918,411
Total supporting services	**16,425,826**	20,426,674
Total expenses	**80,624,686**	82,082,165
Change in unrestricted net assets	**10,658,483**	19,436,247
Changes in temporarily restricted net assets:		
Contributions	**11,501,433**	10,471,501
Investment (loss) gain, net	**(289,059)**	976,735
Change in value of split-interest agreements	**(875,411)**	(795,014)
Change in value of pledges and irrevocable trusts	**16,624**	(49,956)
Net assets released from restrictions	**(13,077,591)**	(7,148,500)
Change in temporarily restricted net assets	**(2,724,004)**	3,454,766
Changes in permanently restricted net assets:		
Contributions	**1,206,960**	-
Change in permanently restricted net assets	**1,206,960**	-
Change in net assets	**9,141,439**	22,891,013
Net assets:		
Beginning	**217,141,676**	194,250,663
Ending	**$ 226,283,115**	$ 217,141,676

See notes to consolidated financial statements.

The Heritage Foundation and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	**$ 9,141,439**	$ 22,891,013
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss (gain) on investments	**500,756**	(10,666,485)
Change in value of split-interest obligations	**593,279**	795,014
Increase in discount on contributions receivable	**8,617**	67,680
Change in value of terminated split-interest obligations	**(9,638)**	576,222
Depreciation	**4,071,116**	3,632,838
(Gain) loss on disposal of assets	**(207,018)**	1,602,035
Change in value of interest rate swap	**165,019**	1,138,713
Contributions restricted to investment in perpetuity	**(1,206,960)**	(100,000)
Contributed property	**(1,794,033)**	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	**5,918,542**	(7,939,347)
Prepayments and other assets	**269,711**	(45,256)
Increase (decrease) in:		
Accounts payable and accrued expenses	**392,459**	(794,449)
Net cash provided by operating activities	**17,843,289**	11,157,978
Cash flows from investing activities:		
Purchases of investments	**(34,968,355)**	(20,723,105)
Sales of investments	**24,588,026**	17,340,234
Purchases of property and equipment	**(9,049,667)**	(3,605,500)
Change in cash surrender value of life insurance	**4,684**	(75,211)
Net cash used in investing activities	**(19,425,312)**	(7,063,582)
Cash flows from financing activities:		
Principal payments on notes payable	**(518,066)**	(503,752)
Proceeds from the line of credit	**9,246,609**	10,250,486
Payments on the line of credit	**(9,246,609)**	(10,250,486)
Contributions restricted to investment in perpetuity	**1,206,960**	100,000
Payments on split interest obligations	**(1,535,936)**	(2,057,595)
Proceeds from split interest obligations	**282,132**	332,933
Net cash used in financing activities	**(564,910)**	(2,128,414)
Net (decrease) increase in cash and cash equivalents	**(2,146,933)**	1,965,982
Cash and cash equivalents:		
Beginning	**6,807,296**	4,841,314
Ending	**$ 4,660,363**	$ 6,807,296
Supplemental disclosures of cash flow information:		
Interest paid	**$ 601,780**	$ 484,284
Net (decrease) increase in cash surrender value of life insurance	**$ (4,684)**	$ 75,211

See 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 significant accounting policies of the Foundation 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 three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets: Net assets representing unrestricted resources available to support the Foundation's operations and temporarily restricted resources that become available for use in the year given by satisfying donor-imposed time or purpose restrictions. Unrestricted net assets 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, 2015 and 2014, totaled $107,094,213 and $109,836,527, respectively. The undesignated fund constitutes the Foundation's operating fund and net investment in property, plant and equipment net of related liabilities.

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

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. When a donor-imposed restriction expires due to accomplishing the stipulated purpose or through passage of time, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Permanently restricted net assets: 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.

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 contributions 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. As of December 31, 2015, the Foundation had an outstanding conditional matching pledge totaling $12,000,000.

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 based on estimated amounts not expected to be collected. At December 31, 2015 and 2014, there was no allowance for uncollectible amounts recorded.

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 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. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

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. 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. Depreciation for all assets was based on a half-year convention for the year of acquisition and the last year of useful life for assets purchased prior to 2006. Beginning in 2006, assets are depreciated on a full-year convention. The Foundation capitalizes all property and equipment with a cost of $5,000 or more, except for IT equipment and software which is capitalized at unit costs exceeding $2,500. Beginning January 1, 2014, the Foundation began capitalizing 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 2015 or 2014.

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.

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 other income in the consolidated statements of activities. The fair values of the interest rate swap liabilities at December 31, 2015 and 2014, were $(1,418,588) and $(1,253,569), 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 6%. 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 unrestricted purposes.

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 of 1986. 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. 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 $12,893,090 and $14,542,519 for the years ended December 31, 2015 and 2014, respectively. The Foundation allocated these joint costs among program and fundraising expenses as follows:

	2015	2014
Educational programs expense	$ 10,733,741	$ 11,833,584
Fundraising expense	2,159,349	2,708,935
	$ 12,893,090	$ 14,542,519

Advertising costs: Advertising costs are expensed when incurred. Total advertising expense was $1,164,302 and $1,528,497 for the years ended December 31, 2015 and 2014, 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 statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Upcoming accounting pronouncements: In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)*. The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share (or its equivalent) practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the statement of financial position. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share (or its equivalent) practical expedient. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2016. Early adoption is permitted. Upon adoption, the amendments are applied retrospectively to all periods presented. The impact of adopting this Update is reflected in Note 4 of the consolidated financial statements.

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

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, 2020, with early adoption permitted.

Subsequent events: The Foundation evaluated subsequent events through June 7, 2016, which is the date the consolidated financial statements were available to be issued.

Note 2. Contributions Receivable

The following are unconditional promises to give at December 31, 2015 and 2014:

	2015	2014
Due in less than one year	$ 8,145,678	$ 13,367,690
Due in one to five years	3,477,922	4,154,452
Due in greater than five years	30,000	50,000
Total to be received	11,653,600	17,572,142
Less discounting for multi-year promises to give	(129,745)	(121,128)
	$ 11,523,855	$ 17,451,014

Note 3. Investments

See Note 4 for details on the composition of the investment portfolio at December 31, 2015 and 2014.

The following summarizes investment (loss) income for the years ended December 31, 2015 and 2014:

	2015	2014
Net realized and unrealized (loss) gain	$ (500,756)	$ 10,666,485
Interest and dividends	112,469	200,874
	$ (388,287)	$ 10,867,359

Note 4. 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.

Note 4. Fair Value Measurements (Continued)

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. 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, 2015 and 2014, 72% and 65%, 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. 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.

Guarantee 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 observable inputs; however, the liabilities are not publicly traded and are, therefore, considered Level 2 items.

The estimated fair values of the Foundation's short-term financial instruments, including contributions receivable, cash surrender value of insurance, and accounts payable and accrued expenses arising in the ordinary course of operations, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The fair value of the Foundation's notes payable approximates fair value as the interest rate on the underlying instruments fluctuate with market rates.

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.

Note 4. 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, 2015 and 2014.

	2015			
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:				
Mutual funds:				
Equity mutual funds:				
Index funds	$ 2,180,121	$ 2,180,121	$ -	$ -
Established international	738,706	738,706	-	-
Multi-strategy	207,582	207,582	-	-
Emerging markets	164,229	164,229	-	-
Total equity mutual funds	3,290,638	3,290,638	-	-
Fixed income mutual funds:				
Multi-strategy	1,450,317	1,450,317	-	-
Index funds	1,157,228	1,157,228	-	-
Total fixed income mutual funds	2,607,545	2,607,545	-	-
Total mutual funds	5,898,183	5,898,183	-	-
Total publicly traded securities	5,898,183	5,898,183	-	-
Alternative investments valued using a net asset per share or equivalent as a practical expedient (a)	151,553,094	-	-	-
Common trust funds valued using a net asset value per share or equivalent as a practical expedient (a)	12,086,243	-	-	-
Other assets:				
Multi-strategy equity PSAs valued using a practical expedient (a)	2,072,408	-	-	-
Guaranteed income fund valued using a practical expedient (a)	321,334	-	-	-
Total other assets valued using a practical expedient	2,393,742	-	-	-
Total assets at fair value	171,931,262	5,898,183	-	-
Cash equivalents	12,607,039	12,607,039	-	-
Total investments	$ 184,538,301	$ 18,505,222	$ -	$ -
Deferred compensation obligations	$ 2,393,742	$ -	$ 2,393,742	$ -
Interest rate swap liability	1,418,588	-	1,418,588	-
Total liabilities	$ 3,812,330	$ -	$ 3,812,330	$ -

Note 4. Fair Value Measurements (Continued)

	2014			
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:				
Mutual funds:				
Equity mutual funds:				
Index funds	$ 3,112,777	$ 3,112,777	$ -	$ -
Established international	684,675	684,675	-	-
Multi-strategy	142,997	142,997	-	-
Emerging markets	321,237	321,237	-	-
Total equity mutual funds	4,261,686	4,261,686	-	-
Fixed income mutual funds				
Multi-strategy	1,433,285	1,433,285	-	-
Index funds	1,006,605	1,006,605	-	-
Total fixed income mutual funds	2,439,890	2,439,890	-	-
Total mutual funds	6,701,576	6,701,576	-	-
Total publicly traded securities	6,701,576	6,701,576	-	-
Alternative investments valued using a net asset per share or equivalent as a practical expedient (a)	142,077,003	-	-	-
Common trust funds valued using a net asset value per share or equivalent as a practical expedient (a)	12,769,619	-	-	-
Other assets:				
Multi-strategy equity PSAs valued using a practical expedient (a)	2,049,454	-	-	-
Guaranteed income fund valued using a practical expedient (a)	294,241	-	-	-
Total other assets valued using a practical expedient	2,343,695	-	-	-
Total assets at fair value	163,891,893	6,701,576	-	-
Cash equivalents	10,716,788	10,716,788	-	-
Total investments	$ 174,608,681	$ 17,418,364	$ -	$ -
Deferred compensation obligations	$ 2,343,695	$ -	$ 2,343,695	$ -
Interest rate swap liability	1,253,569	-	1,253,569	-
Total liabilities at fair value	$ 3,597,264	$ -	$ 3,597,264	$ -

(a) In accordance with the Foundation's adopting of 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 statements of financial position.

Note 4. Fair Value of Financial Instruments (Continued)

The following table provides additional disclosures on the Foundation's alternative investment assets at December 31, 2015 and 2014:

	Fair Value at 2015	Fair Value at 2014	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy[(a)]	$ 104,990,641	$ 97,902,496	N/A	Daily	1 day
Global Equity Opportunistic [(b)]	21,320,788	20,338,116	N/A	Quarterly	30 days
Fixed Income[(c)]	12,538,114	10,895,645	N/A	Daily	1 day
Private Equity[(d)]	9,201,650	9,341,088	4,332,978	N/A[(e)]	N/A[(e)]
Event-driven[(f)]	3,501,901	3,599,658	N/A	Quarterly to Semi-annual	60 days
Total	$ 151,553,094	$ 142,077,003			

(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. 2% 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 amongst partners. 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.

Note 5. Property and Equipment

Property and equipment and accumulated depreciation consist of the following at December 31, 2015 and 2014:

	2015	2014
Land, building and improvements	$ 82,645,863	$ 78,643,260
Contruction in progress	8,605,959	2,302,614
Office furniture and equipment	12,398,430	12,223,594
	103,650,252	93,169,468
Less accumulated depreciation	(36,095,996)	(32,594,814)
Property and equipment, net	$ 67,554,256	$ 60,574,654

Depreciation expense for the years ended December 31, 2015 and 2014, totaled $4,071,116 and $3,632,838, respectively.

Note 6. Notes Payable

Notes payable as of December 31, 2015 and 2014, are as follows:

	2015	2014
Notes payable	$ 17,435,315	$ 17,953,381
Interest rate swap liability	727,915	624,302
Interest rate swap liability	690,673	629,267
	18,853,903	19,206,950
Less current portion	(533,072)	(518,065)
Notes payable, long-term	$ 18,320,831	$ 18,688,885

Interest expense for the years ended December 31, 2015 and 2014, was $637,524 and $540,495, respectively.

The Foundation obtained a note with a financial institution. The loan amount was $5,186,560. At December 31, 2015 and 2014, the outstanding liability totaled $4,685,192 and $4,892,655, respectively. The principal balance is payable in 59 consecutive monthly installments. The unpaid principal balance of the note, plus accrued and unpaid interest, is due on June 12, 2018. The note is unsecured and requires that the Foundation maintain a debt service coverage ratio (as defined by the lending institution) of at least 1.20 to 1 and unrestricted liquidity of at least $50,000,000. The interest rate on this loan is the London Interbank Offered Rate (LIBOR) + 1.23%.

The Foundation obtained a second note with a financial institution. The loan amount was $6,500,000. At December 31, 2015 and 2014, the outstanding liability totaled $6,149,105 and $6,294,672, 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 1.20 to 1 and unrestricted liquidity of at least $50,000,000. The interest rate on this loan is LIBOR + 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 $727,915 and $624,302 as of December 31, 2015 and 2014, respectively.

Note 6. Notes Payable (Continued)

The Foundation obtained a third note with a financial institution. The loan amount was $7,000,000. At December 31, 2015 and 2014, the outstanding liability totaled $6,601,018 and $6,766,054, 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 1.20 to 1 and unrestricted liquidity of at least $50,000,000. The interest rate on this loan is LIBOR + 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 $690,673 and $629,267 as of December 31, 2015 and 2014, respectively.

During the year ended December 31, 2015, the Foundation, obtained a closed ended note with a financial institution totaling $30,000,000 used to fund certain construction projects. Advances on the loan may be taken for 36 months from the date of commencement ("the draw period") at a rate of LIBOR + 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 143 consecutive monthly installments on the outstanding principal balance based on a 25 year amortization. The note is unsecured and requires that the Foundation maintain a debt service coverage ratio (as defined by the lending institution) of at least 1.20 to 1 and unrestricted liquidity of at least $50,000,000. There were no borrowings as of December 31, 2015.

As of December 31, 2015, minimum future principal payments under these notes are as follows:

Years ending December 31:	
2016	$ 533,072
2017	548,805
2018	4,610,817
2019	374,860
2020	394,028
Thereafter	10,973,733
	$ 17,435,315

Note 7. 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 1.20 to 1 and unrestricted liquidity of at least $50,000,000. The line of credit matures on September 30, 2017, and there was no outstanding balance at December 31, 2015 and 2014.

Note 8. 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. Expenditures for the plan were approximately $1,930,000 and $1,734,000 for the years ended December 31, 2015 and 2014, 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.

Note 8. Employee Benefits (Continued)

Deferred compensation plan*:* The Foundation provides 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 $2,393,742 and $2,343,695 at December 31, 2015 and 2014, respectively.

Note 9. 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 permanently restricted net assets (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 not classified in permanently restricted net assets is classified as temporarily restricted net assets 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 permanently restricted cash contributions that attempt to provide a predictable stream of funding to programs while maintaining purchasing power. The annual investment withdrawal is calculated at 5% of the three-year quarterly average of the investment market values at September 30. All earnings from these funds are reflected as temporarily restricted net assets until appropriated for program expenditures.

Note 9. Restricted Net Assets (Continued)

Temporarily restricted net assets at December 31, 2015 and 2014, consist of the following:

	2015	2014
Contributions restricted by purpose	$ 27,075,557	$ 29,635,690
Contributions restricted by passage of time	13,703,662	13,867,533
	$ 40,779,219	$ 43,503,223

Permanently restricted net assets represent funds that are subject to donor-imposed restrictions requiring the corpus to be held in perpetuity. At December 31, 2015 and 2014, permanently restricted net assets consist of the following:

	2015	2014
John Von Kannon Philanthropy Endowment	$ 1,106,960	$ -
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
Haskell Robinson Endowment	100,000	-
	$ 4,606,960	$ 3,400,000

Note 9. 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, 2015 and 2014:

	December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ -	$ 26,846,974	$ 2,900,000	$ 29,746,974
Investment return, net	-	40,000	-	40,000
Amounts appropriated for expenditure	-	(46,300)	-	(46,300)
Contributions	-	-	1,206,960	1,206,960
End of year	$ -	$ 26,840,674	$ 4,106,960	$ 30,947,634

	December 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ -	$ 26,619,811	$ 2,800,000	$ 29,419,811
Investment return, net	-	268,463	-	268,463
Amounts appropriated for expenditure	-	(41,300)	-	(41,300)
Contributions	-	-	100,000	100,000
End of year	$ -	$ 26,846,974	$ 2,900,000	$ 29,746,974

At December 31, 2015 and 2014, the balance in the Foundation's permanently restricted endowment varies from the balance in the Foundation's permanently restricted net assets by $500,000, due to an outstanding contribution receivable.

Note 10. 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, 2015, are as follows:

Years ending December 31:	
2016	$ 144,384
2017	137,560
2018	91,876
	$ 373,820

Expense incurred under these leases for the years ended December 31, 2015 and 2014, totaled $143,847 and $185,549, respectively.

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 Foundation elects the entity's Board of Directors. The Foundation and the entity have entered into a lease for office space that ends March 31, 2018.

Note 11. Related Party Transactions (Continued)

Future minimum rental receipts for the lease are as follows:

Years ending December 31:		
2016	$	158,940
2017		158,940
2018		39,735
	$	357,615

Lease revenue from related entities totaled $155,423 and $144,187 for 2015 and 2014, respectively.

Contracts for administrative services are on an annual basis and begin on January 1. Administrative service contract income totaled $1,338,032 and $1,221,263 in 2015 and 2014, respectively. During the year ended December 31, 2015, the Foundation contracted with one of the related entities for services to be provided to the Foundation. Total expenses incurred by the Foundation related to this contract totaled $500,000 during the year ended December 31, 2015.

The Heritage Foundation and Affiliates

Consolidated Schedule of Functional Expenses
Year Ended December 31, 2015

	Program Services				Supporting Services			
	Research	Media and Government Relations	Educational Programs	Total	Management and General	Fundraising	Total	Total Expenses
Salaries	$ 14,952,768	$ 3,442,917	$ 7,224,588	$ 25,620,273	$ 443,793	$ 4,459,126	$ 4,902,919	$ 30,523,192
Consultants and independent contractors	735,461	1,111,588	4,909,733	6,756,782	47,544	2,413,363	2,460,907	9,217,689
Fringe benefits	3,231,181	846,252	1,832,821	5,910,254	104,481	1,158,604	1,263,085	7,173,339
Printing and copying	137,301	107,976	3,792,225	4,037,502	3,372	1,105,696	1,109,068	5,146,570
Postage and shipping	67,434	55,145	4,991,162	5,113,741	2,866	1,264,917	1,267,783	6,381,524
Conferences and meetings	1,251,784	1,112,456	975,537	3,339,777	65,092	457,457	522,549	3,862,326
Depreciation	1,190,470	412,613	1,506,897	3,109,980	280,065	681,071	961,136	4,071,116
Advertising	9,440	4,402	875,661	889,503	2,825	271,972	274,797	1,164,300
Occupancy	739,900	257,170	967,998	1,965,068	379,361	130,410	509,771	2,474,839
Taxes, licenses and bank fees	61,893	21,314	1,009,978	1,093,185	265,549	323,423	588,972	1,682,157
Information technology	497,979	174,286	1,565,911	2,238,176	23,891	561,952	585,843	2,824,019
Professional fees	89,041	30,861	113,081	232,983	89,250	23,856	113,106	346,089
Supplies	94,997	41,135	129,151	265,283	13,030	60,206	73,236	338,519
Travel	753,817	243,672	328,094	1,325,583	23,543	768,533	792,076	2,117,659
Staff training	137,484	48,399	172,042	357,925	37,833	29,497	67,330	425,255
Dues and subscriptions	243,815	306,550	61,303	611,668	5,362	54,449	59,811	671,479
Photography and video	13,101	24,594	310,517	348,212	2,518	175,461	177,979	526,191
Interest expense	35,666	12,362	45,146	93,174	523,946	20,404	544,350	637,524
Insurance	129,421	44,684	163,188	337,293	58,668	19,811	78,479	415,772
Honoraria and writer's fees	82,912	740	63,221	146,873	-	2,700	2,700	149,573
Books and products	53,353	68,677	57,142	179,172	1,216	22,604	23,820	202,992
Miscellaneous	4,239	2,466	1,965	8,670	2,938	43,171	46,109	54,779
Other programs and grants	42,835	140,880	34,068	217,783	-	-	-	217,783
Total expenses	$ 24,556,292	$ 8,511,139	$ 31,131,429	$ 64,198,860	$ 2,377,143	$ 14,048,683	$ 16,425,826	$ 80,624,686

The Heritage Foundation and Affiliates

Consolidated Schedule of Functional Expenses
Year Ended December 31, 2014

	Program Services				Supporting Services			
	Research	Media and Government Relations	Educational Programs	Total	Management and General	Fundraising	Total	Total Expenses
Salaries	$ 14,687,013	$ 3,994,351	$ 6,062,247	$ 24,743,611	$ 670,668	$ 4,744,518	$ 5,415,186	$ 30,158,797
Consultants and independent contractors	983,630	926,954	5,008,899	6,919,483	100,639	3,434,139	3,534,778	10,454,261
Fringe benefits	3,466,332	967,968	1,572,478	6,006,778	130,618	1,319,380	1,449,998	7,456,776
Printing and copying	130,076	81,860	3,706,179	3,918,115	3,189	1,871,985	1,875,174	5,793,289
Postage and shipping	35,374	53,980	4,886,639	4,975,993	2,863	2,022,161	2,025,024	7,001,017
Conferences and meetings	895,819	876,472	694,315	2,466,606	54,110	391,524	445,634	2,912,240
Depreciation	1,007,574	357,427	1,219,964	2,584,965	295,852	752,021	1,047,873	3,632,838
Advertising	3,412	7,626	1,159,850	1,170,888	970	356,639	357,609	1,528,497
Occupancy	704,323	255,881	888,098	1,848,302	390,865	524,621	915,486	2,763,788
Taxes, licenses, and bank fees	56,836	20,460	779,782	857,078	158,432	424,160	582,592	1,439,670
Information technology	497,570	179,441	1,570,698	2,247,709	26,741	741,367	768,108	3,015,817
Professional fees	83,509	29,624	134,780	247,913	38,315	28,872	67,187	315,100
Supplies	64,464	27,001	60,454	151,919	15,710	89,976	105,686	257,605
Travel	692,627	262,663	304,310	1,259,600	42,552	728,020	770,572	2,030,172
Staff training	136,671	56,471	165,890	359,032	60,534	29,094	89,628	448,660
Dues and subscriptions	167,806	211,789	49,115	428,710	7,313	63,464	70,777	499,487
Photography and video	18,329	34,437	424,928	477,694	635	77,244	77,879	555,573
Interest expense	36,098	12,805	43,707	92,610	420,942	26,943	447,885	540,495
Insurance	89,764	31,843	108,685	230,292	59,192	36,059	95,251	325,543
Honoraria and writer's fees	150,379	60,366	111,745	322,490	1,082	15,214	16,296	338,786
Books and products	91,073	22,967	11,406	125,446	4,221	217,465	221,686	347,132
Miscellaneous	7,788	2,884	6,038	16,710	22,820	23,545	46,365	63,075
Other programs and grants	1,000	41,136	161,411	203,547	-	-	-	203,547
Total expenses	$ 24,007,467	$ 8,516,406	$ 29,131,618	$ 61,655,491	$ 2,508,263	$ 17,918,411	$ 20,426,674	$ 82,082,165