

# **The Heritage Foundation and Affiliates**

Consolidated Financial Report  
December 31, 2020

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## Independent Auditor's Report

RSM US LLP

Board of Trustees  
The Heritage Foundation

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Heritage Foundation and Affiliates (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Heritage Foundation and Affiliates as of December 31, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Washington, D.C.  
June 28, 2021

## The Heritage Foundation and Affiliates

### Consolidated Statements of Financial Position December 31, 2020 and 2019

	2020	2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,118,156	\$ 9,722,225
Contributions receivable	5,629,525	5,474,168
Prepayments and other assets	2,009,498	846,062
<b>Total current assets</b>	<b>16,757,179</b>	<b>16,042,455</b>
Long-term assets:		
Investments	265,874,747	256,723,421
Deferred compensation investments	2,918,432	2,902,306
Contributions receivable, net	2,957,123	3,941,692
Property and equipment, net	92,825,388	86,153,974
<b>Total long-term assets</b>	<b>364,575,690</b>	<b>349,721,393</b>
<b>Total assets</b>	<b>\$ 381,332,869</b>	<b>\$ 365,763,848</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 9,526,479	\$ 9,257,260
Notes payable	412,269	393,261
<b>Total current liabilities</b>	<b>9,938,748</b>	<b>9,650,521</b>
Long-term liabilities:		
Notes payable	26,544,867	20,956,942
Interest rate swaps	1,249,775	949,373
Deferred compensation obligations	2,918,432	2,902,306
Split-interest obligations	8,926,899	9,807,873
<b>Total long-term liabilities</b>	<b>39,639,973</b>	<b>34,616,494</b>
<b>Total liabilities</b>	<b>49,578,721</b>	<b>44,267,015</b>
Net assets:		
Without donor restrictions:		
Board designated	135,626,527	128,813,089
Undesignated	107,052,274	105,353,172
<b>Total without donor restrictions:</b>	<b>242,678,801</b>	<b>234,166,261</b>
With donor restrictions	89,075,347	87,330,572
<b>Total net assets</b>	<b>331,754,148</b>	<b>321,496,833</b>
<b>Total liabilities and net assets</b>	<b>\$ 381,332,869</b>	<b>\$ 365,763,848</b>

See notes to consolidated financial statements.

## The Heritage Foundation and Affiliates

### Consolidated Statements of Activities Years Ended December 31, 2020 and 2019

	2020	2019
Changes in net assets without donor restrictions:		
Support and revenue:		
Public support – contributions	\$ 65,132,865	\$ 87,405,090
Investment gain, net	17,300,055	24,393,214
Rental and other income	1,466,697	2,086,464
Net assets released from restriction – satisfaction of time or program restrictions	3,540,371	6,909,217
<b>Total support and revenue in net assets without donor restrictions</b>	<b>87,439,988</b>	<b>120,793,985</b>
Expenses:		
Program services:		
Research	26,034,836	27,807,027
Media and government relations	6,959,308	9,157,167
Educational programs	30,194,899	25,743,628
<b>Total program services</b>	<b>63,189,043</b>	<b>62,707,822</b>
Supporting services:		
Management and general	1,321,384	1,652,849
Fundraising	14,417,021	13,857,638
<b>Total supporting services</b>	<b>15,738,405</b>	<b>15,510,487</b>
<b>Total expenses</b>	<b>78,927,448</b>	<b>78,218,309</b>
<b>Change in net assets without donor restrictions</b>	<b>8,512,540</b>	<b>42,575,676</b>
Changes in net assets with donor restrictions:		
Contributions	1,236,336	29,849,669
Investment gain, net	5,069,469	6,232,543
Change in value of split-interest agreements	(528,789)	(432,748)
Change in value of contributions and irrevocable trusts	(263,048)	(59,160)
Contributions rescinded	(228,822)	(385,000)
Net assets released from restrictions	(3,540,371)	(6,909,217)
<b>Change in net assets with donor restrictions</b>	<b>1,744,775</b>	<b>28,296,087</b>
<b>Change in net assets</b>	<b>10,257,315</b>	<b>70,871,763</b>
Net assets:		
Beginning	321,496,833	250,625,070
Ending	<b>\$ 331,754,148</b>	<b>\$ 321,496,833</b>

See notes to consolidated financial statements.

## The Heritage Foundation and Affiliates

### Consolidated Statement of Functional Expenses Year Ended December 31, 2020

	Program Services				Supporting Services			
	Research	Media and Government Relations	Educational Programs	Total	Management and General	Fundraising	Total	Total Expenses
Salaries	\$ 16,873,725	\$ 3,467,173	\$ 6,481,307	\$ 26,822,205	\$ 506,725	\$ 4,437,313	\$ 4,944,038	\$ 31,766,243
Consultants and independent contractors	1,326,277	1,153,972	5,276,057	7,756,306	107,489	2,511,198	2,618,687	10,374,993
Fringe benefits	3,856,265	876,941	1,883,290	6,616,496	127,815	1,173,712	1,301,527	7,918,023
Printing and copying	46,912	25,624	4,359,627	4,432,163	2,515	1,194,016	1,196,531	5,628,694
Postage and shipping	21,005	11,089	5,079,563	5,111,657	1,749	1,302,286	1,304,035	6,415,692
Conferences and meetings	262,057	296,902	142,263	701,222	17,326	580,523	597,849	1,299,071
Depreciation	1,139,946	304,716	1,319,557	2,764,219	57,857	631,255	689,112	3,453,331
Advertising	209	89	1,225,978	1,226,276	60	525,624	525,684	1,751,960
Occupancy	897,202	243,663	1,066,602	2,207,467	366,221	132,295	498,516	2,705,983
Taxes, licenses, and bank fees	27,875	7,360	134,312	169,547	4,805	271,816	276,621	446,168
Information technology	676,454	200,284	1,761,510	2,638,248	38,135	1,302,805	1,340,940	3,979,188
Professional fees	81,522	21,791	105,405	208,718	19,572	23,092	42,664	251,382
Supplies	16,389	4,908	24,221	45,518	2,837	7,402	10,239	55,757
Travel	102,793	27,486	40,708	170,987	3,621	101,547	105,168	276,155
Staff training	35,749	9,353	40,098	85,200	7,860	7,724	15,584	100,784
Dues and subscriptions	213,679	157,346	96,832	467,857	15,876	54,345	70,221	538,078
Photography and video	34,967	4,913	141,512	181,392	35	5,620	5,655	187,047
Interest expense	196,808	52,608	227,817	477,233	9,989	108,984	118,973	596,206
Insurance	35,354	9,450	61,293	106,097	28,231	5,043	33,274	139,371
Honoraria and writer's fees	50,700	-	16,895	67,595	-	1,500	1,500	69,095
Books and products	5,715	8,537	182,403	196,655	1,064	45,813	46,877	243,532
Miscellaneous	8,233	2,717	7,649	18,599	1,602	(6,892)	(5,290)	13,309
Other programs and grants	125,000	72,386	520,000	717,386	-	-	-	717,386
<b>Total expenses</b>	<b>\$ 26,034,836</b>	<b>\$ 6,959,308</b>	<b>\$ 30,194,899</b>	<b>\$ 63,189,043</b>	<b>\$ 1,321,384</b>	<b>\$ 14,417,021</b>	<b>\$ 15,738,405</b>	<b>\$ 78,927,448</b>

See notes to consolidated financial statements.

## The Heritage Foundation and Affiliates

### Consolidated Statement of Functional Expenses Year Ended December 31, 2019

	Program Services				Supporting Services			Total Expenses
	Research	Media and Government Relations	Educational Programs	Total	Management and General	Fundraising	Total	
Salaries	\$ 16,725,744	\$ 3,588,179	\$ 5,525,309	\$ 25,839,232	\$ 533,790	\$ 4,027,640	\$ 4,561,430	\$ 30,400,662
Consultants and independent contractors	823,831	1,200,806	3,832,470	5,857,107	115,851	2,571,786	2,687,637	8,544,744
Fringe benefits	3,823,382	1,033,017	1,603,949	6,460,348	132,043	1,176,167	1,308,210	7,768,558
Printing and copying	93,787	71,684	4,001,222	4,166,693	12,247	1,135,665	1,147,912	5,314,605
Postage and shipping	23,441	37,048	4,133,572	4,194,061	2,752	1,031,672	1,034,424	5,228,485
Conferences and meetings	1,551,512	1,473,607	946,331	3,971,450	195,025	622,188	817,213	4,788,663
Depreciation	1,398,319	460,482	1,290,273	3,149,074	83,117	696,853	779,970	3,929,044
Advertising	105	34	501,619	501,758	28	670,487	670,515	1,172,273
Occupancy	1,037,410	341,872	980,427	2,359,709	369,022	142,515	511,537	2,871,246
Taxes, licenses, and bank fees	31,593	10,533	146,142	188,268	6,584	234,863	241,447	429,715
Information technology	788,663	291,552	1,565,788	2,646,003	54,113	834,861	888,974	3,534,977
Professional fees	94,570	31,143	102,218	227,931	31,710	23,441	55,151	283,082
Supplies	43,237	13,417	39,313	95,967	10,816	25,192	36,008	131,975
Travel	707,847	254,393	170,734	1,132,974	23,688	393,610	417,298	1,550,272
Staff training	73,030	19,742	53,011	145,783	14,148	33,425	47,573	193,356
Dues and subscriptions	104,387	160,738	37,349	302,474	6,240	53,433	59,673	362,147
Photography and video	15,275	14,469	233,301	263,045	1,783	7,392	9,175	272,220
Interest expense	217,103	71,494	200,327	488,924	12,905	108,193	121,098	610,022
Insurance	101,541	33,439	114,922	249,902	41,045	13,451	54,496	304,398
Honoraria and writer's fees	72,100	2,600	17,505	92,205	-	2,300	2,300	94,505
Books and products	34,130	8,811	91,115	134,056	4,942	46,002	50,944	185,000
Miscellaneous	8,020	2,370	6,731	17,121	1,000	6,502	7,502	24,623
Other programs and grants	38,000	35,737	150,000	223,737	-	-	-	223,737
<b>Total expenses</b>	<b>\$ 27,807,027</b>	<b>\$ 9,157,167</b>	<b>\$ 25,743,628</b>	<b>\$ 62,707,822</b>	<b>\$ 1,652,849</b>	<b>\$ 13,857,638</b>	<b>\$ 15,510,487</b>	<b>\$ 78,218,309</b>

See notes to consolidated financial statements.

## The Heritage Foundation and Affiliates

### Consolidated Statements of Cash Flows Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 10,257,315	\$ 70,871,763
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized gain on investments	(21,047,301)	(30,213,847)
Change in value of split-interest obligations	528,789	570,475
Change in discount on contributions receivable	(69,931)	(78,568)
Change in value of terminated split-interest obligations	528,950	1,128,744
Depreciation	3,453,331	3,929,044
Loss on disposal of assets	334,151	110,707
Change in value of interest rate swap	300,402	417,870
Pledges rescinded	228,822	385,000
Contributions restricted to investment in perpetuity	(101,000)	(28,035,681)
Contributions restricted to capital expenditures	(235,102)	(253,250)
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	670,321	5,957,090
Prepayments and other assets	(1,163,436)	325,688
Change in cash surrender value of life insurance	-	882,107
Increase (decrease) in:		
Accounts payable and accrued expenses	269,219	1,052,118
<b>Net cash (used in) provided by operating activities</b>	<b>(6,045,470)</b>	<b>27,049,260</b>
Cash flows from investing activities:		
Purchases of investments	(684,518,589)	(60,302,074)
Sales of investments	695,622,727	13,351,874
Purchases of property and equipment	(10,458,896)	(5,563,108)
<b>Net cash provided by (used in) investing activities</b>	<b>645,242</b>	<b>(52,513,308)</b>
Cash flows from financing activities:		
Proceeds from notes payable	6,000,000	-
Principal payments on notes payable	(393,067)	(375,123)
Proceeds from the line of credit	11,752,152	6,912,757
Payments on the line of credit	(11,752,152)	(6,912,757)
Contributions restricted to investment in perpetuity	101,000	28,035,681
Contributions restricted to capital expenditures	235,102	253,250
Payments on split interest obligations	(1,938,713)	(3,076,415)
Proceeds from split interest obligations	791,837	491,908
<b>Net cash provided by financing activities</b>	<b>4,796,159</b>	<b>25,329,301</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(604,069)</b>	<b>(134,747)</b>
Cash and cash equivalents:		
Beginning	9,722,225	9,856,972
Ending	\$ 9,118,156	\$ 9,722,225
Supplemental disclosures of cash flow information:		
Interest paid	\$ 890,381	\$ 1,004,006
Net decrease in cash surrender value of life insurance	\$ -	\$ (882,107)

See notes to consolidated financial statements.



## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### 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, 3<sup>rd</sup> 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.

3<sup>rd</sup> 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, 3<sup>rd</sup> Street Properties, LLC, Massachusetts Avenue Properties, LLC and Intern Housing, LLC. All intercompany accounts and transactions between The Heritage Foundation, 3<sup>rd</sup> 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 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 at December 31, 2020 and 2019, totaled \$135,626,527 and \$128,813,089, 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

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

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

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

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

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

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

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is included in the change in value of pledges and irrevocable trusts on the consolidated statements of activities. An allowance for uncollectible pledges is recorded when management identifies amounts not expected to be collected. At December 31, 2020 and 2019, 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

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

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

**Valuation of long-lived assets:** Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. The Foundation had no impairment of long-lived assets during 2020 or 2019.

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

**Derivative financial instruments:** The Foundation has entered into three 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.

## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

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

**Income tax status:** The Heritage Foundation is a nonprofit organization exempt from federal income taxes under Section 501(a), as an entity described in Section 501(c)(3) of the Internal Revenue Code. The Heritage Foundation has been classified by the Internal Revenue Service as a public charity and is not a private foundation. Contributions to The Heritage Foundation are deductible for federal income, estate and gift tax purposes. Income which is not related to exempt purposes is subject to tax. There was no significant net unrelated income tax during the years ended December 31, 2020 and 2019. 3<sup>rd</sup> Street Properties, LLC, Massachusetts Avenue Properties, LLC and Intern Housing, LLC are limited liability companies whose sole member is The Heritage Foundation. Consequently, 3<sup>rd</sup> 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 \$12,952,927 and \$11,607,017 for the years ended December 31, 2020 and 2019, respectively. The Foundation allocated these joint costs among program and fundraising expenses as follows:

	2020	2019
Educational programs expense	\$ 11,143,895	\$ 10,140,445
Fundraising expense	1,809,032	1,466,572
	<u>\$ 12,952,927</u>	<u>\$ 11,607,017</u>

**Advertising costs:** Advertising costs are expensed when incurred. Total advertising expense was \$1,751,960 and \$1,172,273 for the years ended December 31, 2020 and 2019, 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.

**Adopted accounting pronouncement:** In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The Foundation adopted this ASU as it pertains to the Foundation as a recourse provider through the modified prospective transition method during the year ended December 31, 2020. This ASU did not have a significant impact on the Foundation's consolidated financial statements.

## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

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

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. This ASU did not have a significant impact on the Foundation's consolidated financial statements.

**Subsequent events:** The Foundation evaluated subsequent events through June 28, 2021, 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, 2020 and 2019:

	2020	2019
Due in less than one year	\$ 5,629,525	\$ 5,474,168
Due in one to five years	3,102,500	3,657,000
Due in greater than five years	-	500,000
Total to be received	8,732,025	9,631,168
Less discounting for multi-year promises to give (rates of 1.11% - 3.13%)	(145,377)	(215,308)
	<u>\$ 8,586,648</u>	<u>\$ 9,415,860</u>

#### Note 3. Investments and Fair Value Measurements

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

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

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

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

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.

## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### **Note 3. Investments and Fair Value Measurements (Continued)**

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, 2020 and 2019, 52% of capital committed to the private equity funds has been called.

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

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

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

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

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

## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

#### Note 3. Investments and Fair Value Measurements (Continued)

The tables below summarize the Foundation's financial assets and liabilities measured at fair value on a recurring basis, at December 31, 2020 and 2019.

Description	2020			
	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	\$ 66,511,233	\$ 66,511,233	\$ -	\$ -
Mutual funds:				
Equity mutual funds:				
Index funds	27,060,317	27,060,317	-	-
Established international	485,773	485,773	-	-
Multi-strategy	36,368,326	36,368,326	-	-
Total equity mutual funds	63,914,416	63,914,416	-	-
Fixed income mutual funds:				
Multi-strategy	30,953,262	30,953,262	-	-
Total fixed income mutual funds	30,953,262	30,953,262	-	-
Total mutual funds	94,867,678	94,867,678	-	-
Total publicly traded securities	161,378,911	161,378,911	-	-
Corporate bonds and U.S Government securities	14,899,973	-	14,899,973	-
Alternative investments valued using a net asset per share or equivalent as a practical expedient (a)	69,553,327	-	-	-
Common trust funds valued using a net asset value per share or equivalent as a practical expedient (a)	10,344,051	-	-	-
Other assets:				
Multi-strategy equity PSAs valued using a practical expedient (a)	2,888,896	-	-	-
Guaranteed income fund valued using a practical expedient (a)	29,536	-	-	-
Total other assets valued using a practical expedient	2,918,432	-	-	-
Total assets at fair value	259,094,694	161,378,911	14,899,973	-
Cash equivalents	9,698,485	9,698,485	-	-
Total investments and deferred compensation assets	\$ 268,793,179	\$ 171,077,396	\$ 14,899,973	\$ -
Deferred compensation obligations (a)	\$ 2,918,432	\$ -	\$ -	\$ -
Interest rate swap liability	1,249,775	-	1,249,775	-
Total liabilities	\$ 4,168,207	\$ -	\$ 1,249,775	\$ -

## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

#### Note 3. Investments and Fair Value Measurements (Continued)

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

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



## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

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

The following table provides additional disclosures on the Foundation's alternative investment assets at December 31, 2020 and 2019:

	Fair Value at 2020	Fair Value at 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy <sup>(a)</sup>	\$ -	\$ 129,186,828	N/A	Daily	1 day
Global Equity Opportunistic <sup>(b)</sup>	27,241,597	30,631,731	N/A	Quarterly	30 days
Fixed Income <sup>(c)</sup>	-	17,661,483	N/A	Daily	1 day
Private Equity <sup>(d)</sup>	39,032,051	9,226,680	\$ 15,591,630	N/A <sup>(e)</sup>	N/A <sup>(e)</sup>
Event-Driven <sup>(f)</sup>	3,279,679	4,592,383	N/A	Quarterly to Semi-annual	60 days
Total	<u>\$ 69,553,327</u>	<u>\$ 191,299,105</u>			

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

The following summarizes net investment income for the years ended December 31, 2020 and 2019:

	2020	2019
Net realized and unrealized gain	\$ 21,047,301	\$ 30,213,847
Interest and dividends	2,479,123	1,455,699
Investment fees	(1,156,900)	(1,043,789)
	<u>\$ 22,369,524</u>	<u>\$ 30,625,757</u>

## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 4. Property and Equipment

Property and equipment and accumulated depreciation consist of the following at December 31, 2020 and 2019:

	2020	2019
Land, building and improvements	\$ 116,278,553	\$ 115,623,228
Construction in progress	13,904,539	5,375,170
Office furniture and equipment	9,690,501	9,574,136
	<u>139,873,593</u>	<u>130,572,534</u>
Less accumulated depreciation	(47,048,205)	(44,418,560)
Property and equipment, net	<u>\$ 92,825,388</u>	<u>\$ 86,153,974</u>

Depreciation expense for the years ended December 31, 2020 and 2019, totaled \$3,453,331 and \$3,929,044, respectively.

#### Note 5. Notes Payable

Notes payable as of December 31, 2020 and 2019, are as follows:

	2020	2019
Notes payable	\$ 26,957,136	\$ 21,350,203
	<u>26,957,136</u>	<u>21,350,203</u>
Less current portion	(412,269)	(393,261)
Notes payable, long-term	<u>\$ 26,544,867</u>	<u>\$ 21,906,315</u>

Interest expense for the years ended December 31, 2020 and 2019, was \$596,206 and \$610,022, respectively.

The Foundation has a note with a financial institution. The loan amount was \$6,500,000. At December 31, 2020 and 2019, the outstanding liability totaled \$5,303,204 and \$5,489,462, respectively. The principal balance is payable in 119 consecutive monthly installments. The unpaid principal balance of the note, plus accrued and unpaid interest, is due on June 12, 2023. The note is unsecured and requires that the Foundation maintain a debt service coverage ratio (as defined by the lending institution) of at least 1 to 1 and unrestricted liquidity of at least \$65,000,000. The interest rate on this loan is London Interbank Offered Rate (LIBOR) plus 1.37%; however, a forward starting interest rate swap with a term matching the note at an effective rate of 4.94% per annum. The value of the interest rate swap liability was \$437,638 and \$362,304 as of December 31, 2020 and 2019, respectively.

The Foundation has a second note with a financial institution. The loan amount was \$7,000,000. At December 31, 2020 and 2019, the outstanding liability totaled \$5,653,932 and \$5,860,741, respectively. The principal balance is payable in 179 consecutive monthly installments. The unpaid principal balance of the note, plus accrued and unpaid interest, is due on June 12, 2028. The note is unsecured and requires that the Foundation maintain a debt service coverage ratio (as defined by the lending institution) of at least 1 to 1 and unrestricted liquidity of at least \$65,000,000. The interest rate on this loan is LIBOR plus 1.38%; however, an interest rate swap was initiated with term matching the note with an effective interest rate of 4.54%. The value of the interest rate swap liability was \$941,837 and \$587,069 as of December 31, 2020 and 2019, respectively.

## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### 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 allows advances to be taken for 60 months from the date of commencement (the draw period) at a rate of LIBOR plus 1.50%. On May 7, 2020, the Foundation's \$30,000,000 closed ended note was amended to allow advances to be taken on the loan for 84 months from the date of commencement (the draw period) at a rate of LIBOR plus 1.50%. During the draw period, an unused fee of 12.5 basis points will be assessed. At the end of the draw period, principal and interest will be payable in 155 consecutive monthly installments on the outstanding principal balance based on a 20-year amortization beginning on January 1, 2023. Any unpaid principal and interest is due in full on the maturity date, which is November 30, 2035. The note is unsecured and requires that the Foundation maintain a debt service coverage ratio (as defined by the lending institution) of at least 1 to 1 and unrestricted liquidity of at least \$65,000,000. As of December 31, 2020 and 2019, the outstanding balance of the note was \$16,000,000 and \$10,000,000, respectively. On May 7, 2020, the Foundation entered into an interest rate swap agreement with an effective interest rate of 2.55% commencing on January 1, 2023, and terminating on November 30, 2035. The value of the interest rate swap asset was \$129,700 as of December 31, 2020.

As of December 31, 2020, minimum future principal payments under these notes are as follows:

Years ending December 31:

2021	\$ 412,270
2022	432,198
2023	5,911,165
2024	1,011,338
2025	1,011,338
Thereafter	18,178,827
	<u>\$ 26,957,136</u>

#### Note 6. Line of Credit

The Foundation has a revolving bank line of credit of \$10,000,000 from a financial institution. The revolving line of credit bears interest at LIBOR plus 115 basis points. It is unsecured and requires that the Foundation maintain a debt service coverage ratio of at least 1 to 1 and unrestricted liquidity of at least \$65,000,000. The line of credit matures on December 31, 2021, and there was no outstanding balance at December 31, 2020 and 2019.

#### Note 7. Employee Benefits

**Discretionary contribution plan:** The Foundation provides a non-contributory discretionary contribution plan to all employees with at least one year of service who have attained the age of 21 and who worked at least 1,000 hours during the year. Expenses for the plan were approximately \$2,023,000 and \$1,835,000 for the years ended December 31, 2020 and 2019, respectively. Employees vest at 25% per year of service beginning after two years and are fully vested after five years. The Foundation also provides employees the opportunity to defer current compensation under a 403(b) plan. The Foundation makes no contributions to this plan.

## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 7. Employee Benefits (Continued)

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

The total market value of all deferred compensation investments and the related deferred compensation obligations to employees was \$2,918,432 and \$2,902,306 at December 31, 2020 and 2019, respectively.

#### Note 8. Restricted Net Assets

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

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

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

## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 8. Restricted Net Assets (Continued)

Net assets with donor restrictions at December 31, 2020 and 2019, consist of the following:

	2020	2019
Temporary in nature, excluding endowment funds:		
Contributions restricted by purpose	\$ 2,639,498	\$ 2,639,498
Contributions restricted by passage of time	13,184,434	14,427,177
Total temporary in nature, excluding endowment funds	<u>15,823,932</u>	<u>17,066,675</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	1,148,960	1,148,960
Haskell Robinson Endowment	601,000	500,000
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	27,684,538	27,684,538
Accumulated gains on endowment	6,602,848	3,716,330
Term endowment	25,855,000	25,855,000
Total endowment funds	<u>73,251,415</u>	<u>70,263,897</u>
Total net assets with donor restrictions	<u>\$ 89,075,347</u>	<u>\$ 87,330,572</u>

## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### 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, 2020 and 2019:

	December 31, 2020	
	Net Assets With Donor Restrictions	Total
Beginning of year	\$ 70,263,897	\$ 70,263,897
Investment return, net	4,073,913	4,073,913
Amounts appropriated for expenditure	(1,187,395)	(1,187,395)
Contributions	101,000	101,000
End of year	<u>\$ 73,251,415</u>	<u>\$ 73,251,415</u>

  

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

#### Note 9. Commitments and Contingencies

**Leases:** The Foundation leases equipment and office space under noncancelable operating lease agreements. Future minimum lease payments under noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 2020, are as follows:

Years ending December 31:	
2021	\$ 205,014
2022	154,096
2023	158,719
2024	163,481
2025	168,385
Thereafter	173,437
	<u>\$ 1,023,132</u>

Expense incurred under these leases for the years ended December 31, 2020 and 2019, totaled \$249,177 and \$247,044, respectively.

## The Heritage Foundation and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9. Commitments and Contingencies (Continued)

**Self-insured health plan:** The Foundation has a self-insured health insurance plan for its employees and their qualifying dependents. The Foundation holds stop-loss insurance coverage, which limits the Foundation's liability to an aggregate maximum claim liability per policy year of approximately \$4,400,000. At December 31, 2020 and 2019, the Foundation had medical claims accruals of approximately \$380,000 and \$379,000, respectively, which are included in accounts payable and accrued expenses on the consolidated statements of financial position.

#### Note 10. Related Party Transactions

The Foundation leases office space and provides administrative services to a related entity whose Board of Directors is independent of the Foundation's Board of Trustees. The entity's Board of Directors consists of three Directors that are also Trustees of the Foundation. The Foundation and the entity have a lease for office space that ended March 31, 2020. Subsequent to March 31, 2020, the lease for office space went month to month.

Lease revenue from the related entity totaled \$162,708 and \$164,595 for 2020 and 2019, respectively.

Contracts for administrative services are on an annual basis and begin on January 1, each year. Administrative service contract income totaled \$1,394,933 and \$1,162,856 in 2020 and 2019, respectively. Also, the Foundation contracted with the related entity for services to be provided to the Foundation. Total expenses incurred by the Foundation related to this contract totaled \$517,500 during the years ended December 31, 2020 and 2019. During the year ended December 31, 2020, the Foundation provided a \$500,000 contribution to the related entity.

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, 2020 and 2019, in the ordinary course of business.

#### Note 11. Liquidity and Availability

The following represents the Foundation's financial assets at December 31, 2020 and 2019, are as follows:

	2020	2019
Cash and cash equivalents	\$ 9,118,156	\$ 9,722,225
Contributions receivable	8,586,648	9,415,860
Investments	265,874,747	256,723,421
Total available liquidity	<u>283,579,551</u>	<u>275,861,506</u>
Less:		
Board designated net assets*	135,626,527	128,813,089
Net assets with donor restrictions	89,075,347	87,330,572
	<u>224,701,874</u>	<u>216,143,661</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 58,877,677</u>	<u>\$ 59,717,845</u>

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

## **The Heritage Foundation and Affiliates**

### **Notes to Consolidated Financial Statements**

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#### **Note 11. Liquidity and Availability (Continued)**

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

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

#### **Note 12. COVID – 19**

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