The Heritage Foundation

Financial Report
December 31, 2010

Contents

McGladrey

Independent Auditor's Report

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

We have audited the accompanying statements of financial position of The Heritage Foundation (the Foundation) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Heritage Foundation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Vienna, Virginia
August 8, 2011

The Heritage Foundation

Statements Of Financial Position
December 31, 2010 And 2009

Assets	**2010**	2009
Current Assets		
Cash and cash equivalents	**$ 4,890,432**	$ 7,949,281
Contributions receivable	**11,700,305**	11,571,694
Prepayments and other assets	**1,310,709**	1,009,048
Total current assets	**17,901,446**	20,530,023
Long-Term Assets		
Investments	**117,722,439**	106,790,996
Deferred compensation investments	**3,876,672**	3,279,681
Contributions receivable, net	**5,292,728**	5,160,374
Property and equipment, net	**50,935,812**	47,191,877
Cash surrender value of insurance	**438,474**	389,845
Total long-term assets	**178,266,125**	162,812,773
Total assets	**$ 196,167,571**	$ 183,342,796
Liabilities And Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	**$ 9,172,851**	$ 8,381,758
Notes payable	**193,333**	203,333
Total current liabilities	**9,366,184**	8,585,091
Long-Term Liabilities		
Notes payable	**5,179,035**	3,798,074
Deferred compensation obligations	**3,876,672**	3,279,681
Split-interest obligations	**12,926,002**	11,485,380
Total long-term liabilities	**21,981,709**	18,563,135
Total liabilities	**31,347,893**	27,148,226
Net Assets		
Unrestricted		
Board designated	**98,563,887**	89,787,656
Undesignated	**45,124,979**	44,292,023
Temporarily restricted – gifts from annuities, trusts and promises to give	**19,830,812**	20,914,891
Permanently restricted	**1,300,000**	1,200,000
	164,819,678	156,194,570
	$ 196,167,571	$ 183,342,796

See Notes To Financial Statements.

The Heritage Foundation

Statements Of Activities
Years Ended December 31, 2010 And 2009

	2010	2009
Changes In Unrestricted Net Assets		
Revenue and support:		
Public support – contributions	**$ 64,331,515**	$ 60,165,464
Publications, subscriptions, and registration fees	**474,068**	633,241
Investment income	**12,551,370**	16,334,564
Rental and other income	**2,160,162**	1,582,454
Net assets released from restriction – satisfaction of time or program restrictions	**10,470,322**	9,423,578
Total unrestricted revenue and support	**89,987,437**	88,139,301
Expenses:		
Program services:		
Research	**28,116,527**	23,441,695
Media and government relations	**11,938,882**	14,449,478
Educational programs	**20,927,227**	15,091,617
Total program services	**60,982,636**	52,982,790
Supporting services:		
Management and general	**2,958,778**	1,865,527
Fundraising	**16,436,836**	14,194,368
Total supporting services	**19,395,614**	16,059,895
Total expenses	**80,378,250**	69,042,685
Change in unrestricted net assets	**9,609,187**	19,096,616
Changes In Temporarily Restricted Net Assets		
Contributions	**8,902,806**	11,911,384
Investment income	**1,881,953**	2,776,976
Change in value of split-interest agreements	**(1,399,408)**	(1,061,518)
Change in value of pledges and irrevocable trusts	**892**	(321,448)
Net assets released from restrictions	**(10,470,322)**	(9,423,578)
Change in temporarily restricted net assets	**(1,084,079)**	3,881,816
Changes In Permanently Restricted Net Assets		
Contributions	**100,000**	-
Change in permanently restricted net assets	**100,000**	**-**
Change in net assets	**8,625,108**	22,978,432
Net Assets		
Beginning	**156,194,570**	133,216,138
Ending	**$ 164,819,678**	$ 156,194,570

See Notes To Financial Statements.

The Heritage Foundation

Statements Of Cash Flows
Years Ended December 31, 2010 And 2009

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	**$ 8,625,108**	$ 22,978,432
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net unrealized gain on investments	**(12,113,196)**	(23,789,519)
Net realized (gain) loss on sale of investments	**(1,165,871)**	6,002,644
Change in value of split-interest agreements	**1,399,408**	1,061,518
Discount on contributions receivable	**(77,185)**	(296,033)
Change in value of terminated split-value agreements	**137,127**	106,440
Depreciation	**3,102,186**	2,784,812
Loss on disposal of assets	**162,930**	47
Change in value of interest rate swap	**(35,706)**	(62,399)
Contributed property and equipment	**(334,732)**	-
Contributions restricted to investment in perpetuity	**(100,000)**	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	**(183,780)**	(304,389)
Prepayments and other assets	**(301,661)**	(412,462)
Increase (decrease) in:		
Accounts payable and accrued expenses	**791,093**	363,740
Split-interest obligations	**(95,913)**	(1,263,936)
Net cash (used in) provided by operating activities	**(190,192)**	7,168,895
Cash Flows From Investing Activities		
Change in cash surrender value of life insurance	**(48,629)**	(64,414)
Purchases of long-term investments	**(48,327,880)**	(84,289,944)
Sales of long-term investments	**50,675,504**	85,089,483
Purchases of property and equipment	**(6,674,319)**	(4,672,248)
Net cash used in investing activities	**(4,375,324)**	(3,937,123)
Cash Flows From Financing Activities		
Proceeds from notes payable	**1,600,000**	-
Principal payments on notes payable	**(193,333)**	(190,919)
Contributions restricted to investment in perpetuity	**100,000**	-
Net cash provided by (used in) financing activities	**1,506,667**	(190,919)
Net (decrease) increase in cash and cash equivalents	**(3,058,849)**	3,040,853
Cash And Cash Equivalents		
Beginning	**7,949,281**	4,908,428
Ending	**$ 4,890,432**	$ 7,949,281
Supplemental Disclosure Of Cash Flow Information		
Interest paid	**$ 217,171**	$ 209,270
Supplemental Schedule Of Noncash Investing Activities		
Contributed property and equipment	**$ 334,732**	$ -
Net increase in cash surrender value of life insurance	**$ 48,629**	$ 64,414

See Notes To Financial Statements.

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: Founded in 1973, The Heritage Foundation (the 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.

A summary of significant accounting policies of the Foundation follows:

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

Basis of presentation: The financial statement presentation follows the recommendation of the Financial Accounting Standards Board Accounting Standards Codification (the Codification). As required by the Non-Profit Entities topic of the Codification, *Financial Statements of Not-for-Profit Organizations,* 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, 2010 and 2009, totaled $98,563,887 and $89,787,656, respectively. The undesignated fund constitutes the Foundation's operating fund and net investment in property, plant, and equipment net of related liabilities.

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 statement 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-designated 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.

Financial risk: The Foundation maintains its cash in bank deposit accounts and money market funds, 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.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

The Foundation invests in a professionally managed portfolio that contains corporate debt securities, U.S. government securities, equity securities, and alternative investments. Such investments are exposed to various risks such as 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 financial statements.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities. Other investments such as those in partnerships, hedge funds, trusts, LLCs and private equity are valued at fair value based on the applicable percentage of ownership of the underlying net assets as determined by the fund at the measurement date. In determining fair value, these funds use valuations provided by the underlying funds or partnerships which are also substantiated by the fund's independent auditors. The underlying funds or partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying funds, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective other investments and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the fund's investment in partnerships, private placements or other securities generally represents the amount the fund would expect to receive if it were to liquidate its investment in those underlying investments, excluding any redemption charges that may apply. Furthermore, liquidity may be affected by gate provisions and holdbacks imposed by certain funds.

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 30 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 purchase 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 $2,500 or more.

Derivative financial instruments: The Foundation has entered into an interest rate swap agreement to manage interest rate exposure on $3,866,666 of an original $10,000,000 note payable to finance construction and building improvements and refinance existing debt (Note 6). The interest rate swap exchanged the floating rate (one-month LIBOR plus 175 basis points) for a fixed effective rate of 4.09 percent and matures on May 31, 2012.

Such interest rate swaps are accounted for under the Codification topic, *Accounting for Derivative Instruments and Hedging Activities*. As a not-for-profit organization, the Foundation is not allowed to use cash flow hedging. Therefore, the interest rate swap is recorded in the statement of financial position at fair value. The change in the fair value is reflected in other income in the statement of activities. The fair value of the interest rate swap at December 31, 2010 and 2009, was $(185,702) and $(221,408), respectively, and is included in long-term notes payable in the accompanying statement of financial position.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Foundation accounts for the valuation of long-lived assets in accordance with the Codification. As required by the Non-profit Entities topic of the Codification, *Accounting for the Impairment or Disposal of Long-Lived Assets,* it is required that long-lived assets and certain identifiable intangible assets be 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 2010 or 2009.

Contributions receivable and revenue: The Foundation recognized 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 statement of financial position.

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 recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an appropriate risk free rate of return at the date of the promise to give. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible pledges is recorded based on estimated amounts not expected to be collected. At December 31, 2010 and 2009, there was no reserve for uncollectible amounts recorded.

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

Split-interest agreements: Contributions received in the form of irrevocable split-interest agreements (charitable gift annuities and charitable trusts) are recorded as contribution revenue 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 ranging from three to six percent. Any subsequent changes in the value of the split-interest agreements are recorded as change in value of split-interest agreements in the statement of activities. Assets are recorded at the present value of amounts to be received and are discounted using an appropriate risk-free rate of return.

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.

Income tax status: The Foundation is a not-for-profit 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, as amended. The Foundation has been classified by the Internal Revenue Service as a public charity and is not a private foundation. Contributions to the Foundation are deductible for federal income, estate, and gift tax purposes. Income, which is not related to exempt purposes, is subject to tax.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

On January 1, 2009, the Foundation adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

Allocation of joint costs: The Foundation incurred joint costs of $17,048,620 and $13,809,066 for the years ended December 31, 2010 and 2009, respectively. The Foundation allocated these joint costs among program and fundraising expenses as follows:

	2010	2009
Educational programs expense	**$ 13,759,665**	$ 11,481,159
Fundraising expense	**3,288,955**	2,327,907
	$ 17,048,620	$ 13,809,066

Donated materials: The Foundation receives donations of various property and equipment. If eligible to be recorded, the property is recorded at fair value at the date of donation. Total amount of donated property was $334,732 during the year ended December 31, 2010.

Advertising costs: Advertising costs are expensed when incurred. Total advertising expense was $4,876,958 and $3,785,042 for the years ended December 31, 2010 and 2009, respectively.

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

Recently adopted accounting standards: During January 2010, the Financial Accounting Standards Board (FASB) released Accounting Standards Update No. 2010-06 (ASU 2010-06), which provided accounting guidance that requires new fair value measurement classification disclosures and clarifies existing disclosures. The guidance requires: (i) separate disclosures of significant transfers between Level 1 and 2 and reasons for transfers; (ii) disclosure, on a gross basis, of purchases, sales, issuances and net settlements within Level 3 measurements; (iii) disclosures by class of assets and liabilities; and (iv) a description of the evaluation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disaggregation of the Level 3 activity, which is effective for interim and annual periods beginning after December 15, 2010. The Heritage Foundation adopted ASU 2010-06 during the year ended December 31, 2010.

Subsequent events: The Foundation evaluated subsequent events through August 8, 2011, which is the date the financial statements were available to be issued.

Note 2. Promises To Give

The following are unconditional promises to give at December 31, 2010 and 2009:

	2010	2009
Due in less than one year	$ 11,700,305	$ 11,571,694
Due in one to five years	5,424,836	5,369,667
Due in greater than five years	299,894	299,894
Total to be received	17,425,035	17,241,255
Less discounting for multi-year pledges	(432,002)	(509,187)
	$ 16,993,033	$ 16,732,068

Note 3. Investments

See Note 4 for details on the composition of the investment portfolio at December 31, 2010 and 2009, respectively.

The following summarizes investment income for the years ended December 31, 2010 and 2009:

	2010	2009
Net realized gain (loss)	$ 1,165,871	$ (6,002,644)
Net unrealized gain	12,113,196	23,789,519
Interest and dividends	1,154,256	1,324,665
	$ 14,433,323	$ 19,111,540

Note 4. Fair Value Of Financial Instruments

The Foundation follows the Codification, *Fair Value Measurements,* 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 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and listed derivatives. As required by the Codification, the Foundation does not adjust the quoted price for these investments, even in situation where the Foundation holds a large position and a sale could reasonably impact the quoted price.

> Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; fair value is determined through the use of models or other valuation methodologies. Investments generally included in this category are corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Note 4. Fair Value Of Financial Instruments (Continued)

Level 3 – Inputs are unobservable for the asset or liability and include situations where there is limited market activity for the asset or liability. The inputs for determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies and general and limited interests in private investment funds, real estate funds, debt funds and distressed debt.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

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.

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. Most alternative investments are classified as Level 2 instruments because they comprise equity interests in non-public entities; however, there are observable market based inputs upon which fair market value can be reasonably determined. The remaining investments are classified as Level 3 instruments, due to the fact that they represent closely held partnership interests, which are typically private and do not have observable market inputs, nor are they readily corroborated by broader market data.

Private equity investments are classified as Level 3 because they do not have observable market inputs. The Foundation made its initial investment in these funds in 2008. As of December 31, 2010, 44 percent of capital committed to these funds has been called.

The estimated fair values of the Foundation's short-term financial instruments, including receivables, cash value of life insurance, and payables 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 swap connected to the Foundation's term loan financing is classified as a Level 2 instrument because its value is a function of the difference between the interest rate on the Foundation's note payable and the rate in the swap agreement; hence there are observable market based inputs. The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by hierarchy level.

Note 4. Fair Value Of Financial Instruments (Continued)

The tables below summarize the Foundation's financial assets and liabilities measured at fair value, at December 31, 2010 and 2009:

	As Of December 31, 2010			
	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 Stock				
Information technology	$ 2,792,578	$ 2,792,578	$ -	$ -
Industrials	1,206,643	1,206,643	-	-
Energy	1,021,008	1,021,008	-	-
Health care	959,130	959,130	-	-
Consumer discretionary	810,139	810,139	-	-
Materials	429,948	429,948	-	-
Consumer staples	149,522	149,522	-	-
Financials	141,160	141,160	-	-
Total common stock	7,510,128	7,510,128	-	-
Mutual Funds				
Equity mutual funds				
Multi-strategy	17,226,840	17,226,840	-	-
Index funds	8,147,139	8,147,139	-	-
Commodities funds	5,200,037	5,200,037	-	-
Established international	1,927,967	1,927,967	-	-
Emerging markets	656,615	656,615	-	-
Total equity mutual funds	33,158,598	33,158,598	-	-
Fixed income mutual funds				
Multi-strategy	17,018,625	17,018,625	-	-
Established international	4,517,319	4,517,319	-	-
Index funds	1,082,192	1,082,192	-	-
Total fixed income mutual funds	22,618,136	22,618,136	-	-
Total mutual funds	55,776,734	55,776,734	-	-
Total publicly traded securities	63,286,862	63,286,862	-	-
Alternative Investments				
Global opportunities	18,724,083	-	18,724,083	-
Event driven	13,004,613	-	6,430,643	6,573,970
Multi-strategy	8,897,398	-	5,614,332	3,283,066
Traditional equity	5,003,601	-	5,003,601	-
Equity long/short	4,834,971	-	4,834,971	-
Private equity	4,374,458	-	-	4,374,458
Balanced global opportunistic	1,785,236	-	1,785,236	-
Total alternative investments	56,624,360	-	42,392,866	14,231,494
Other Assets				
Guaranteed income fund	181,325	-	-	181,325
Total other assets	181,325	-	-	181,325
Total assets at fair value	120,092,547	63,286,862	42,392,866	14,412,819
Cash equivalents	1,506,564	1,506,564	-	-
Total investments	$ 121,599,111	$ 64,793,426	$ 42,392,866	$ 14,412,819
Interest rate swap liability	$ 185,702	$ -	$ 185,702	$ -
Total liabilities	$ 185,702	$ -	$ 185,702	$ -

Note 4. Fair Value Of Financial Instruments (Continued)

	As Of December 31, 2009			
Description	Total	Level 1	Level 2	Level 3
Publicly traded securities	$ 42,786,525	$ 42,786,525	$ -	$ -
Partnerships, hedge funds and other securities	46,251,623	-	37,268,765	8,982,858
Private investments	2,351,867	-	-	2,351,867
Deferred compensation investments	3,279,681	1,961,721	1,048,789	269,171
Split interest agreement assets	15,400,981	15,400,981	-	-
Total assets	$ 110,070,677	$ 60,149,227	$ 38,317,554	$ 11,603,896
Interest rate swap liability	$ 221,408	$ -	$ 221,408	$ -
Total liabilities	$ 221,408	$ -	$ 221,408	$ -

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, the Codification requires reconciliation of the beginning and ending balances, separately for each major category of assets and liabilities, except for derivative assets and liabilities, which may be presented net. The following table represents the reconciliation of the Foundation's assets measured at fair value on a recurring basis using significant unobservable inputs.

	December 31, 2010				
Description	**Total**	**Event Driven**	**Funds Of Funds**	**Private Equity**	**Guaranteed Income Fund**
Beginning balance of assets and liabilities	**$ 11,603,896**	**$ 5,612,936**	**$ 3,592,768**	**$ 2,398,192**	**$ -**
Realized and unrealized gains	**1,794,864**	**961,034**	**353,758**	**480,072**	**-**
Purchases	**1,684,370**	**-**	**13,010**	**1,671,360**	**-**
Settlements	**(851,636)**	**-**	**(676,470)**	**(175,166)**	**-**
Transfers into Level 3	**181,325**	**-**	**-**	**-**	**181,325**
Ending balance of assets and liabilities	**$ 14,412,819**	**$ 6,573,970**	**$ 3,283,066**	**$ 4,374,458**	**$ 181,325**

	December 31, 2009			
Description	Total	Partnerships And Hedge Funds	Private Investments	Deferred Compensation Asset
Beginning balance of assets and liabilities	$ 207,512	$ 152,167	$ -	$ 55,345
Total unrealized/realized gains (losses) or change in value recorded in revenue	(766,015)	(390,390)	(262,065)	(113,560)
Transfers in and/or out of Level 3	12,162,399	9,221,081	2,613,932	327,386
Ending balance of assets and liabilities	$ 11,603,896	$ 8,982,858	$ 2,351,867	$ 269,171

Note 4. Fair Value Of Financial Instruments (Continued)

The following table provides additional disclosures on the Foundation's Level 2 and 3 assets at December 31, 2010:

Strategy Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global Equity Opportunistic [a]	$ 18,724,083	N/A	Quarterly	30 days
Event-driven [b]	13,004,613	N/A	Quarterly to Semi-annual	60 days
Equity Long/Short [c]	4,834,971	N/A	Quarterly	45 days
Balanced Global Opportunistic[d]	1,785,236	N/A	Semi-annual	60 days
Multi-strategy [e]	8,897,398	N/A	Quarterly	65 days
Traditional Equity[f]	5,003,601	N/A	Daily	30 days
Private Equity[g]	4,374,458	5,645,693	N/A[h]	N/A
	$ 56,624,360			

(a) Global Equity Opportunistic refers to investments in equity securities across worldwide markets, not restricted to specific regions or market capitalization.

(b) 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.

(c) Long/Short Equity managers seek capital appreciation by taking positions in equities and generally involve fundamental analysis in the investment decision process. Managers in this category tend to benefit through effective stock picking and manage market exposure by shifting allocations between long and short investments, depending on market conditions and outlook. Long/Short Equity strategies may comprise investments in one or multiple countries, including emerging markets and one or multiple sectors within those markets.

(d) Balanced Global Opportunistic refers to a range of investments in domestic and international equities, and fixed income. These managers seek to achieve the proper balance between those markets based on region-specific economic conditions and forecasts, combined with fundamental analysis.

(e) 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. 45 percent of the investment balance in this category is in the process of being liquidated. As such, the redemption frequency or notice period shown relates to those multi-strategy investments not currently planned for liquidation.

(f) Traditional Equity investing involves long only positions in publicly traded equity securities of predominantly U.S. domiciled companies.

(g) 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.

(h) Private Equity partnerships permit redemption only amongst partners. As such, there is no redemption frequency or notice period officially outlined in the investment agreement.

Note 5. Property And Equipment

Property and equipment and accumulated depreciation consist of the following at December 31, 2010 and 2009:

	2010	2009
Land, building, and improvements	**$ 62,254,678**	$ 57,802,791
Office furniture and equipment	**11,748,309**	9,825,168
	74,002,987	67,627,959
Less accumulated depreciation	**(23,067,175)**	(20,436,082)
Property and equipment, net	**$ 50,935,812**	$ 47,191,877

Depreciation expense for the years ended December 31, 2010 and 2009, totaled $3,102,186 and $2,784,812, respectively.

Note 6. Notes Payable

Notes payable as of December 31, 2010 and 2009, are as follows:

	2010	2009
Construction note payable – 2002	**$ 3,576,666**	$ 3,769,999
Construction note payable – 2010	**1,600,000**	-
Interest rate swap liability (Note 1)	**185,702**	221,408
Construction note payable – 2005	**10,000**	10,000
	5,372,368	4,001,407
Less current portion	**(193,333)**	(203,333)
Notes payable, long-term	**$ 5,179,035**	$ 3,798,074

Note Payable (Construction and Building Improvements) – In 2002, the Foundation obtained a $10 million note which was used to finance construction, building improvements and refinance existing debt. During 2005, $4,950,000 of the note was paid off. In 2008, the remaining outstanding balance of the note was subject to an interest-rate swap agreement, with an effective fixed rate of 5.99 percent over seven years. In 2009, the principal balance of $3,866,666 was refinanced and extended. The unpaid principal balance of the new note, plus accrued and unpaid interest, is due on May 31, 2012. A new swap agreement was initiated with a term matching the new note and with an effective interest rate of 4.09 percent per annum (Note 1). The note is secured by certain assets held in the Foundation's investment portfolio and requires that the Foundation maintain a debt service coverage ratio (as defined by the lending institution) of at least 1.35 to 1 and a ratio of unrestricted liquidity to funded debt of at least 5 to 1.

Note Payable (Construction and Building Improvements) – In 2010, the Foundation obtained an interest-only term loan in the amount of $1.6 million which was used to finance construction and building improvements at the 319 D-Street and 321 D-Street, NE properties. The unpaid principal balance of the new note, plus accrued and unpaid interest, is due on May 26, 2015. The interest-only loan bears variable interest at LIBOR plus the index and 1.25% annually. The note is unsecured but requires the Foundation to maintain a debt service coverage ratio (as defined by the lending institution) of at least 1.35 to 1 and a ratio of unrestricted liquidity to funded debt of at least 5 to 1.

Note 6. Notes Payable (Continued)

Mortgage Note Payable – During 2005, the Foundation obtained an interest-only term loan in the amount of $10,000 to finance the cost of preliminary design and planning for use of property at 426 3rd Street, NE. The loan principal was refinanced during August 2010. The unpaid principal balance of the new note, plus accrued and unpaid interest, is due on August 15, 2015 and is secured with a deed of trust placed on the property. The interest-only loan bears variable interest at LIBOR plus the index and 1.25% annually.

Minimum future payments under these notes payable as of December 31, 2010, are as follows:

Years Ending December 31,	
2011	$ 193,333
2012	3,383,333
2013	-
2014	-
2015	1,610,000
	$ 5,186,666

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. Contributions to the plan by the Foundation were $1,659,000 and $1,536,739 for the years ended December 31, 2010 and 2009, respectively. Employees vest at 25 percent per year of service beginning after two years and are fully vested after five years.

Deferred Compensation Plan – The Foundation provides employees the opportunity to defer current compensation under both 403(b) and a 457(b) plan. Although the Foundation makes no contributions to these plans, the 457(b) plan assets and related liability to employees of $1,400,295 and $1,109,374 at December 31, 2010 and 2009, respectively, are includable on the Foundation's statement of financial position within deferred compensation obligations.

The total market value of all deferred compensation investments and the related deferred compensation obligations to employees was $3,876,672 and $3,279,681 at December 31, 2010 and 2009, respectively.

Note 8. Restricted Net Assets

In August 2008, the Codification on Endowments of Not-for-Profit Organizations: *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Fund* was issued. 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 cash gifts donated to permanent endowment and (b) the discounted value of future gifts promised to permanent endowment, net of allowance for uncollectible pledges. 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 five percent 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.

Temporarily restricted net assets at December 31, 2010 and 2009, consist of the following:

	2010	2009
Contributions restricted by purpose	**$ 831,254**	$ 2,317,467
Contributions restricted by passage of time	**18,999,558**	18,597,424
	$ 19,830,812	$ 20,914,891

Permanently restricted net assets represent funds that are subject to donor-imposed restrictions requiring the corpus to be held in perpetuity. At December 31, 2010 and 2009, permanently restricted net assets consist of the following:

	2010	2009
William E. Simon Fellow Endowment	**$ 1,000,000**	$ 1,000,000
Westerman Intern Endowment	**100,000**	100,000
John R. & Margrite Davis Intern Endowment	**100,000**	100,000
Miller Intern Endowment	**100,000**	-
	$ 1,300,000	$ 1,200,000

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, 2010 and 2009:

	December 31, 2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Beginning of year	**$ -**	**$ 496,612**	**$ 1,200,000**	**$ 1,696,612**
Investment return	**-**	**219,488**	**-**	**219,488**
Amounts appropriated for expenditure	**-**	**(134,847)**	**-**	**(134,847)**
Contributions	**-**	**-**	**100,000**	**100,000**
End of year	**$ -**	**$ 581,253**	**$ 1,300,000**	**$ 1,881,253**

	December 31, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ 221,130	$ -	$ 1,200,000	$ 1,421,130
Investment return	-	331,219	-	331,219
Amounts appropriated for expenditure	-	(55,737)	-	(55,737)
Transfers	(221,130)	221,130	-	-
End of year	$ -	$ 496,612	$ 1,200,000	$ 1,696,612

Note 9. Operating Leases

The Foundation leases equipment 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, 2010, are as follows:

Years Ending December 31,	
2011	$ 180,075
2012	53,229
2013	17,329

Expense incurred under these leases for the years ended December 31, 2010 and 2009, totaled $189,505 and $136,279, respectively.

Note 10. Related Party Transactions

During 2010, the Foundation renewed a lease to provide space to a company affiliated with a member of the Board of Trustees. The lease runs from September 1, 2010 through August 31, 2011. Annual lease payments total $58,632. Lease payments relating to this lease amounted to approximately $58,871 during the year ended December 31, 2010. Future minimum lease payments relating to this lease will amount to approximately $39,088 for the year ending December 31, 2011. Rental income recognized during the years ended December 31, 2010 and 2009, was $58,871 and $53,748, respectively.

The Foundation signed leases to provide intern housing to a college affiliated with a member of the Board of Trustees. The leases run from November 13, 2009 through May 9, 2010, and from August 28, 2010 through May 8, 2011. Future minimum lease payments relating to this lease are expected to be $36,555 for the year ending December 31, 2011.

During 2010, the Foundation entered into contracts to lease office space and provide administrative services to a related entity whose Board of Directors are independent of the Foundation's Board of Trustees. The office space lease is for a five-year period ending June 30, 2015. A contract for administrative services with the related party began June 1, 2010. Total payments for administrative and program services under the contract, not to include lobbying expenses, totaled $245,525 in 2010 and are priced at the cost of the services provided. The Foundation also provided goods and incidental services at fair market value totaling $26,037. The Foundation entered into a grant agreement with the related party to grant $400,000, to be used exclusively for program and administrative expenses, not to include lobbying activities. This grant is included in the statement of activities for 2010 as a component of programs and grants.

Independent Auditor's Report On The Supplementary Information

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

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information, which follows, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Vienna, Virginia
August 8, 2011

The Heritage Foundation

Schedule Of Functional Expenses
Year Ended December 31, 2010

	Program Services				Supporting Services			
	Research	Media And Government Relations	Educational Programs	Total	Management And General	Fundraising	Total	Total Expenses
Supplies	$ 307,521	$ 102,692	$ 108,274	$ 518,487	$ 25,846	$ 121,701	$ 147,547	$ 666,034
Telephone	244,665	107,427	56,986	409,078	17,943	62,333	80,276	489,354
Leased equipment	66,290	28,148	49,340	143,778	6,976	38,753	45,729	189,507
Staff training	187,409	73,721	77,624	338,754	52,790	24,026	76,816	415,570
Postage and freight	147,463	70,106	5,144,933	5,362,502	10,393	2,394,162	2,404,555	7,767,057
Professional fees	218,593	81,596	160,099	460,288	97,163	4,783	101,946	562,234
Rent	96,813	36,612	30,268	163,693	8,840	6,064	14,904	178,597
Occupancy charges	961,005	407,876	333,314	1,702,195	101,135	35	101,170	1,803,365
Insurance	89,951	38,195	31,215	159,361	16,717	3,538	20,255	179,616
Data processing	31,225	9,514	7,739	48,478	44,493	107,906	152,399	200,877
Photography, copying, and recording	67,908	77,885	35,873	181,666	11,084	51,673	62,757	244,423
Books	54,968	10,605	17,132	82,705	2,467	49,918	52,385	135,090
Subscriptions	104,562	133,456	13,844	251,862	8,528	10,057	18,585	270,447
Taxes and licenses	138,440	27,404	86,501	252,345	118,133	3,984	122,117	374,462
Maintenance	63,363	31,729	46,860	141,952	6,666	36,782	43,448	185,400
Travel and subsistence	39,141	16,725	16,658	72,524	5,159	510,498	515,657	588,181
Miscellaneous	23,778	3,755	178,001	205,534	1,312	206,725	208,037	413,571
Printing and mailing	288,883	157,267	6,738,573	7,184,723	19,449	2,814,736	2,834,185	10,018,908
Conferences	2,775,596	1,194,464	102,628	4,072,688	70,602	1,785,511	1,856,113	5,928,801
Advertising	1,986,001	859,217	668,760	3,513,978	638,426	724,554	1,362,980	4,876,958
Other programs and grants	41,180	417,466	10,039	468,685	4,684	800	5,484	474,169
Salaries	13,500,104	5,506,332	2,159,570	21,166,006	1,130,633	2,831,537	3,962,170	25,128,176
Fringe benefits	3,174,391	1,282,958	613,256	5,070,605	283,559	702,244	985,803	6,056,408
Scholars and consultants	1,775,110	622,039	2,858,003	5,255,152	130,162	3,058,235	3,188,397	8,443,549
Honoraria and writer's fees	245,368	12,437	6,895	264,700	6,600	129,200	135,800	400,500
Temporary assistance	113,291	16,530	30,054	159,875	3,988	41,354	45,342	205,217
On-line service fees	212,388	119,690	480,562	812,640	12,842	36,940	49,782	862,422
Interest expense	75,967	32,257	56,543	164,767	7,994	44,410	52,404	217,171
Depreciation	1,085,153	460,779	807,683	2,353,615	114,194	634,377	748,571	3,102,186
Total expenses	$ 28,116,527	$ 11,938,882	$ 20,927,227	$ 60,982,636	$ 2,958,778	$ 16,436,836	$ 19,395,614	$ 80,378,250

The Heritage Foundation

Schedule Of Functional Expenses
Year Ended December 31, 2009

	Program Services				Supporting Services			
	Research	Media And Government Relations	Educational Programs	Total	Management And General	Fundraising	Total	Total Expenses
Supplies	$ 254,838	$ 112,007	$ 50,057	$ 416,902	$ 17,207	$ 79,132	$ 96,339	$ 513,241
Telephone	210,332	118,391	42,794	371,517	12,264	49,452	61,716	433,233
Leased equipment	64,055	39,484	85,905	189,444	5,098	38,787	43,885	233,329
Staff training	134,089	62,361	43,702	240,152	30,684	22,860	53,544	293,696
Postage and freight	140,055	60,697	4,131,620	4,332,372	6,461	2,228,112	2,234,573	6,566,945
Professional fees	115,434	75,221	34,753	225,408	83,010	6,399	89,409	314,817
Rent	84,410	43,744	20,869	149,023	5,446	11,912	17,358	166,381
Occupancy charges	737,454	455,859	224,714	1,418,027	58,736	248	58,984	1,477,011
Insurance	79,816	49,199	24,343	153,358	14,118	3,323	17,441	170,799
Data processing	16,608	10,111	5,003	31,722	28,146	99,296	127,442	159,164
Photography, copying, and recording	99,489	46,944	6,656	153,089	3,894	36,613	40,507	193,596
Books	70,506	28,728	19,337	118,571	1,473	191,561	193,034	311,605
Subscriptions	100,062	157,304	8,467	265,833	7,752	8,236	15,988	281,821
Taxes and licenses	79,462	42,161	27,607	149,230	104,745	8,251	112,996	262,226
Maintenance	54,118	33,358	34,819	122,295	4,324	32,739	37,063	159,358
Travel and subsistence	31,488	17,746	3,638	52,872	1,747	457,608	459,355	512,227
Miscellaneous	9,583	5,726	153,751	169,060	1,873	143,496	145,369	314,429
Printing and mailing	161,546	107,451	4,971,072	5,240,069	14,522	2,776,958	2,791,480	8,031,549
Conferences	2,401,519	1,064,275	113,784	3,579,578	46,154	1,514,133	1,560,287	5,139,865
Advertising	151,822	3,479,545	12,900	3,644,267	15,043	125,732	140,775	3,785,042
Other programs and grants	26,289	14,377	6,867	47,533	2,694	5,383	8,077	55,610
Salaries	12,484,084	5,772,156	1,785,287	20,041,527	973,153	2,521,225	3,494,378	23,535,905
Fringe benefits	2,553,253	1,215,357	481,907	4,250,517	204,559	579,691	784,250	5,034,767
Scholars and consultants	1,819,650	572,081	1,793,609	4,185,340	119,652	2,512,520	2,632,172	6,817,512
Honoraria and writer's fees	214,621	14,006	5,445	234,072	6,432	84,789	91,221	325,293
Temporary assistance	77,049	11,683	33,306	122,038	1,508	11,791	13,299	135,337
On-line service fees	253,498	212,894	314,948	781,340	13,933	28,572	42,505	823,845
Interest expense	71,052	43,798	45,742	160,592	5,654	43,024	48,678	209,270
Depreciation	945,513	582,814	608,715	2,137,042	75,245	572,525	647,770	2,784,812
Total expenses	$ 23,441,695	$ 14,449,478	$ 15,091,617	$ 52,982,790	$ 1,865,527	$ 14,194,368	$ 16,059,895	$ 69,042,685