The Heritage Foundation And Affiliates

Consolidated Financial Report
December 31, 2012

Contents

McGladrey

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Heritage Foundation and Affiliates (the Foundation) which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Heritage Foundation and Affiliates as of December 31, 2012 and 2011, 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.

Member of the RSM International network of independent accounting, tax and consulting firms.

Other Matter

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

McGladrey LLP

Vienna, Virginia
September 17, 2013

The Heritage Foundation And Affiliates

Consolidated Statements Of Financial Position
December 31, 2012 And 2011

Assets	**2012**	2011
Current Assets		
Cash and cash equivalents	**$ 5,413,858**	$ 3,494,032
Contributions receivable	**7,411,009**	6,595,565
Prepayments and other assets	**1,047,118**	1,805,652
Total current assets	**13,871,985**	11,895,249
Long-Term Assets		
Investments	**115,713,432**	106,771,663
Deferred compensation investments	**4,387,041**	3,833,588
Contributions receivable, net	**4,200,049**	1,762,535
Property and equipment, net	**61,965,235**	49,402,214
Cash surrender value of insurance	**498,780**	444,145
Total long-term assets	**186,764,537**	162,214,145
Total assets	**$ 200,636,522**	$ 174,109,394

Liabilities And Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	**$ 10,292,457**	$ 9,615,477
Notes payable	**369,583**	3,442,622
Total current liabilities	**10,662,040**	13,058,099
Long-Term Liabilities		
Notes payable	**18,321,844**	1,600,000
Deferred compensation obligations	**4,387,041**	3,833,588
Split-interest obligations	**12,988,305**	12,386,160
Total long-term liabilities	**35,697,190**	17,819,748
Total liabilities	**46,359,230**	30,877,847
Net Assets		
Unrestricted		
Board designated	**95,574,148**	89,153,147
Undesignated	**42,978,959**	44,118,481
Temporarily restricted – gifts from annuities, trusts and promises to give	**12,324,185**	8,559,919
Permanently restricted	**3,400,000**	1,400,000
	154,277,292	143,231,547
	$ 200,636,522	$ 174,109,394

See Notes To Consolidated Financial Statements.

The Heritage Foundation And Affiliates

Consolidated Statements Of Activities
Years Ended December 31, 2012 And 2011

	2012	2011
Changes In Unrestricted Net Assets		
Revenue and support:		
Public support – contributions	**$ 69,419,300**	$ 67,194,234
Publications, subscriptions, and registration fees	**132,503**	265,606
Investment gain (loss), net	**10,941,741**	(8,357,268)
Rental and other income	**1,496,408**	2,490,549
Net assets released from restriction – satisfaction of time or program restrictions	**3,829,577**	8,023,469
Total unrestricted revenue and support	**85,819,529**	69,616,590
Expenses:		
Program services:		
Research	**28,140,844**	26,560,427
Media and government relations	**11,043,821**	11,797,297
Educational programs	**23,331,038**	24,102,552
Total program services	**62,515,703**	62,460,276
Supporting services:		
Management and general	**2,302,525**	1,975,389
Fundraising	**15,719,822**	15,598,163
Total supporting services	**18,022,347**	17,573,552
Total expenses	**80,538,050**	80,033,828
Change in unrestricted net assets	**5,281,479**	(10,417,238)
Changes In Temporarily Restricted Net Assets		
Contributions	**6,655,415**	2,490,949
Investment gain (loss), net	**1,969,151**	(206,207)
Change in value of split-interest agreements	**(951,258)**	(924,400)
Change in value of pledges and irrevocable trusts	**(54,465)**	146,824
Pledges rescinded	**(25,000)**	(4,754,590)
Net assets released from restrictions	**(3,829,577)**	(8,023,469)
Change in temporarily restricted net assets	**3,764,266**	(11,270,893)
Changes In Permanently Restricted Net Assets		
Contributions	**2,000,000**	100,000
Change in permanently restricted net assets	**2,000,000**	100,000
Change in net assets	**11,045,745**	(21,588,131)
Net Assets		
Beginning	**143,231,547**	164,819,678
Ending	**$ 154,277,292**	$ 143,231,547

See Notes To Consolidated Financial Statements.

The Heritage Foundation And Affiliates

Consolidated Statements Of Cash Flows
Years Ended December 31, 2012 And 2011

		2012		2011
Cash Flows From Operating Activities				
Change in net assets	**$**	**11,045,745**	$	(21,588,131)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Net realized and unrealized (gain) loss on investments		**(11,902,752)**		9,588,738
Change in value of split-interest agreements		**951,258**		924,400
Discount on contributions receivable		**108,824**		(361,525)
Change in value of terminated split-interest agreements		**(135,406)**		211,492
Depreciation		**3,713,012**		3,288,843
Loss on disposal of assets		**227,645**		111,230
Change in value of interest rate swap		**809,162**		(126,413)
Contributed property and equipment		**(223,171)**		(82,500)
Contributions restricted to investment in perpetuity		**(1,320,000)**		(100,000)
Pledges rescinded		**25,000**		4,754,590
Change in cash surrender value of life insurance		**(54,635)**		(5,671)
Changes in assets and liabilities:				
(Increase) decrease in:				
Contributions receivable		**(3,386,782)**		4,241,868
Prepayments and other assets		**758,534**		(494,943)
Increase (decrease) in:				
Accounts payable and accrued expenses		**676,980**		442,626
Split-interest obligations		**(213,707)**		(1,675,734)
Net cash provided by (used in) operating activities		**1,079,707**		(871,130)
Cash Flows From Investing Activities				
Purchases of long-term investments		**(54,029,177)**		(78,281,315)
Sales of long-term investments		**56,990,160**		79,643,353
Purchases of property and equipment		**(16,280,507)**		(1,783,975)
Net cash used in investing activities		**(13,319,524)**		(421,937)
Cash Flows From Financing Activities				
Proceeds from notes payable		**22,852,222**		-
Principal payments on notes payable		**(10,012,579)**		(203,333)
Contributions restricted to investment in perpetuity		**1,320,000**		100,000
Net cash provided by (used in) financing activities		**14,159,643**		(103,333)
Net increase (decrease) in cash and cash equivalents		**1,919,826**		(1,396,400)
Cash And Cash Equivalents				
Beginning		**3,494,032**		4,890,432
Ending	**$**	**5,413,858**	$	3,494,032
Supplemental Disclosure Of Cash Flow Information				
Interest paid	**$**	**309,615**	$	208,990
Supplemental Schedule Of Noncash Investing Activities				
Contributed property and equipment	**$**	**223,171**	$	82,500
Net increase in cash surrender value of life insurance	**$**	**54,635**	$	5,671

See Notes To Consolidated Financial Statements.

Note 1. Nature Of Activities And Significant Accounting Policies

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

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

During 2012, The Heritage Foundation became the sole member of three Limited Liability Companies that are used for a variety of purposes.

3rd Street Properties, LLC is a Limited Liability Company used to purchase and hold real estate property.

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

Intern Housing LLC, is a Limited Liability Company that operates an intern housing program.

A summary of significant accounting policies of the Foundation follows:

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

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

Basis of presentation: The consolidated financial statement presentation follows the recommendation of the Financial Accounting Standards Board 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, 2012 and 2011, totaled $95,574,148 and $89,153,147, respectively. The undesignated fund constitutes the Foundation's operating fund and net investment in property, plant, and equipment net of related liabilities.

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

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

Permanently restricted net assets − Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation, typically with earned investment income used for donor-restricted purposes.

Cash and cash equivalents: The Foundation considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

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.

The Foundation invests in a professionally managed portfolio that contains fixed income securities, equity securities, and alternative investments. Such investments are exposed to various systematic 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 consolidated financial statements.

Contributions receivable and revenue and support: The Foundation recognized revenue and support for contributions received, including those contributions received in the form of unconditional promises to give or pledges. These promises to give are classified as contributions receivable on the consolidated statements of financial position.

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 discount rate commensurate with the risks involved. Amortization of the discount is included in the change in value of pledges and irrevocable trusts on the consolidated statements of activities. An allowance for uncollectible pledges is recorded based on estimated amounts not expected to be collected. At December 31, 2012 and 2011, there was no reserve for uncollectible amounts recorded. Rescinded pledges are recorded as reductions of temporarily restricted net assets in the accompanying consolidated statements of activities. Rescinded pledges were $25,000 and $4,754,590 during the years ended December 31, 2012 and 2011, respectively.

Investments: Investments in equity securities with readily determinable fair values and all investments in fixed income securities are reported at fair value with gains and losses included in the consolidated statements 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 or partners' capital 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.

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

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 3 to 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 $5,000 or more, except for IT equipment and software which is capitalized at unit costs exceeding $2,500.

Valuation of long-lived assets: The Foundation accounts for the valuation of long-lived assets in accordance with the Codification. As required by the Codification topic, *Accounting for the Impairment or Disposal of Long-Lived Assets,* long-lived assets and certain identifiable intangible assets are to 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 2012 or 2011.

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.

Derivative financial instruments: The Foundation has entered into several interest rate swap agreements to manage the interest rate exposure on their 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, *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 swaps are recorded in the consolidated statements of financial position at fair value. The changes in the fair values are reflected in other income in the consolidated statements of activities. The fair values of the interest rate swaps at December 31, 2012 and 2011, were $(868,451) and $(59,289), respectively, and are included in long-term notes payable in the accompanying consolidated statements of financial position.

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

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 commensurate with the risks involved, ranging from 3% – 6%. Any subsequent changes in the value of the split-interest agreements are recorded as change in value of split-interest agreements in the consolidated statements of activities.

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

Income tax status: The Heritage 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. The Heritage Foundation has been classified by the Internal Revenue Service as a public charity and is not a private foundation. Contributions to The Heritage Foundation are deductible for federal income, estate, and gift tax purposes. Income, which is not related to exempt purposes, is subject to tax. 3rd Street Properties, LLC, Massachusetts Avenue Properties, LLC, and Intern Housing LLC, are limited liability companies whose sole member is The Heritage Foundation. Consequently, 3rd Street Properties, LLC, Massachusetts Avenue Properties, LLC, and Intern Housing LLC, are disregarded entities for federal and state income tax purposes.

The Foundation follows 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 consolidated 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 consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% 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 consolidated 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 2009.

Allocation of joint costs: The Foundation incurred joint costs of $12,258,081 and $13,320,077 for the years ended December 31, 2012 and 2011, respectively. The Foundation allocated these joint costs among program and fundraising expenses as follows:

	2012	2011
Educational programs expense	**$ 9,952,444**	$ 9,990,841
Fundraising expense	**2,305,637**	3,329,236
	$ 12,258,081	$ 13,320,077

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

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 $223,171 and $82,500 for the years ended December 31, 2012 and 2011, respectively.

Advertising costs: Advertising costs are expensed when incurred. Total advertising expense was $3,155,194 and $4,834,427 for the years ended December 31, 2012 and 2011, respectively.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: The Foundation evaluated subsequent events through September 17, 2013, which is the date the consolidated financial statements were available to be issued. In June 2013, Heritage completed a refinance of its existing debt.

Reclassifications: Certain items in the December 31, 2011, consolidated financial statements have been reclassified to conform to the December 31, 2012, consolidated financial statement presentation. The reclassifications had no effect on the previously reported change in net assets.

Note 2. Contributions Receivable

The following are unconditional promises to give at December 31, 2012 and 2011:

	2012	2011
Due in less than one year	**$ 7,411,009**	$ 6,595,565
Due in one to five years	**4,016,850**	1,833,012
Due in greater than five years	**362,500**	-
Total to be received	**11,790,359**	8,428,577
Less discounting for multi-year promises to give	**(179,301)**	(70,477)
	$ 11,611,058	$ 8,358,100

Note 3. Investments

See Note 4 for details on the composition of the investment portfolio at December 31, 2012 and 2011, respectively.

The following summarizes net investment income (loss) for the years ended December 31, 2012 and 2011:

	2012	2011
Net realized and unrealized gain (loss)	**$ 11,902,752**	$ (9,588,738)
Interest and dividends	**1,008,140**	1,025,263
	$ 12,910,892	$ (8,563,475)

Note 4. Fair Value Of Financial Instruments

The Foundation follows the Codification topic, *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.

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. At each reporting period, transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy.

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

Note 4. Fair Value Of Financial Instruments (Continued)

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. Alternative investments classified as Level 2 instruments have net asset values per share, or the equivalent, and are able to be redeemed by the Foundation at the consolidated statement of financial position date, or in the near term. 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, 2012 and 2011, 56% and 51% of capital committed to these funds has been called, respectively.

Common trust funds (CTF) are unregistered bank investment products that pool fiduciary client assets. CTF's are classified as Level 2 instruments, as the fair value of a CTF is based on the underlying assets in the CTF and the number of units in each CTF owned by the Foundation as a percentage of the total number of units in the CTF.

Multi-strategy equity pooled separate accounts (PSAs) are Level 2 assets, as the fair value of a PSA is based on 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.

Guarantee contract assets are Level 3 assets valued at a contract value reported by the insurance company. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. The guarantee contract is invested primarily in publicly traded and privately placed debt securities and mortgage loans. Funds can be withdrawn to be placed in separate funds upon request. Withdrawals may be deferred for up to six months if it is determined that investment conditions prevent an orderly sale of investments.

The deferred compensation plan obligations are based on the fair market value of the deferred compensation plan assets, which are observable inputs; however, the liabilities are not publicly traded and are, therefore, considered Level 2 items.

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

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

Note 4. Fair Value Of Financial Instruments (Continued)

The tables below summarize the Foundation's financial assets and liabilities measured at fair value, at December 31, 2012 and 2011.

	As Of December 31, 2012			
	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	$ 3,034,223	$ 3,034,223	$ -	$ -
Health care	1,556,392	1,556,392	-	-
Consumer discretionary	1,443,211	1,443,211	-	-
Industrials	1,129,130	1,129,130	-	-
Consumer staples	895,153	895,153	-	-
Energy	888,331	888,331	-	-
Materials	870,907	870,907	-	-
Financials	729,029	729,029	-	-
Total common stock	10,546,376	10,546,376	-	-
Mutual Funds				
Equity mutual funds				
Multi-strategy	13,711,542	13,711,542	-	-
Index funds	2,073,204	2,073,204	-	-
Commodities funds	1,866,799	1,866,799	-	-
Established international	758,236	758,236	-	-
Emerging markets	483,409	483,409	-	-
Total equity mutual funds	18,893,190	18,893,190	-	-
Fixed income mutual funds				
Multi-strategy	17,636,758	17,636,758	-	-
Established international	3,255,112	3,255,112	-	-
Total fixed income mutual funds	20,891,870	20,891,870	-	-
Total mutual funds	39,785,060	39,785,060	-	-
Total publicly traded securities	50,331,436	50,331,436	-	-
Alternative Investments				
Multi-strategy	16,704,367	-	14,699,997	2,004,370
Global equity opportunities	15,322,187	-	15,322,187	-
Private equity	7,343,921	-	-	7,343,921
Traditional equity	6,159,244	-	6,159,244	-
Event driven	2,982,025	-	2,982,025	-
Balanced global opportunistic	988,083	-	988,083	-
Total alternative investments	49,499,827	-	40,151,536	9,348,291
Common Trust Funds				
Equity mutual funds				
Index funds	6,087,065	-	6,087,065	-
Established international	1,251,324	-	1,251,324	-
Emerging markets	636,033	-	636,033	-
Total equity mutual funds	7,974,422	-	7,974,422	-
Fixed income mutual funds				
Index funds	516,766	-	516,766	-
Total fixed income mutual funds	516,766	-	516,766	-
Total common trust funds	8,491,188	-	8,491,188	-
Other Assets				
Multi-strategy equity PSA's	1,648,170	-	1,648,170	-
Guaranteed income fund	218,371	-	-	218,371
Total other assets	1,866,541	-	1,648,170	218,371
Total assets at fair value	110,188,992	50,331,436	50,290,894	9,566,662
Cash equivalents	9,911,481	9,911,481	-	-
Total investments	$ 120,100,473	$ 60,242,917	$ 50,290,894	$ 9,566,662
Deferred compensation obligations	$ 4,387,041	$ -	$ 4,387,041	$ -
Interest rate swap liabilities	868,451	-	868,451	-
Total liabilities	$ 5,255,492	$ -	$ 5,255,492	$ -

Note 4. Fair Value Of Financial Instruments (Continued)

	As Of December 31, 2011			
	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	$ 3,250,135	$ 3,250,135	$ -	$ -
Industrials	1,758,962	1,758,962	-	-
Energy	925,714	925,714	-	-
Health care	844,846	844,846	-	-
Consumer discretionary	784,669	784,669	-	-
Materials	617,048	617,048	-	-
Consumer staples	519,678	519,678	-	-
Financials	210,593	210,593	-	-
Total common stock	8,911,645	8,911,645	-	-
Mutual Funds				
Equity mutual funds				
Multi-strategy	10,010,291	10,010,291	-	-
Index funds	2,137,798	2,137,798	-	-
Commodities funds	1,713,076	1,713,076	-	-
Established international	396,496	396,496	-	-
Emerging markets	29,368	29,368	-	-
Total equity mutual funds	14,287,029	14,287,029	-	-
Fixed income mutual funds				
Multi-strategy	12,693,922	12,693,922	-	-
Established international	3,774,365	3,774,365	-	-
Total fixed income mutual funds	16,468,287	16,468,287	-	-
Total mutual funds	30,755,316	30,755,316	-	-
Total publicly traded securities	39,666,961	39,666,961	-	-
Alternative Investments				
Multi-strategy	16,135,024	-	13,835,706	2,299,318
Global equity opportunities	13,349,560	-	13,349,560	-
Event driven	7,408,598	-	7,408,598	-
Private equity	6,259,333	-	-	6,259,333
Traditional equity	5,407,105	-	5,407,105	-
Equity long/short	4,665,403	-	4,665,403	-
Balanced global opportunistic	1,103,658	-	1,103,658	-
Total alternative investments	54,328,681	-	45,770,030	8,558,651
Common Trust Funds				
Equity mutual funds				
Index funds	5,358,203	-	5,358,203	-
Established international	753,541	-	753,541	-
Emerging markets	480,794	-	480,794	-
Total equity mutual funds	6,592,538	-	6,592,538	-
Fixed income mutual funds				
Index funds	1,039,997	-	1,039,997	-
Total fixed income mutual funds	1,039,997	-	1,039,997	-
Total common trust funds	7,632,535	-	7,632,535	-
Other Assets				
Mutli-strategy equity PSA's	1,373,227	-	1,373,227	-
Guaranteed income fund	199,393	-	-	199,393
Total other assets	1,572,620	-	1,373,227	199,393
Total assets at fair value	103,200,797	39,666,961	54,775,792	8,758,044
Cash equivalents	7,404,454	7,404,454	-	-
Total investments	$ 110,605,251	$ 47,071,415	$ 54,775,792	$ 8,758,044
Deferred compensation obligations	$ 3,833,588	$ -	$ 3,833,588	$ -
Interest rate swap liability	59,289	-	59,289	-
Total liabilities	$ 3,892,877	$ -	$ 3,892,877	$ -

Note 4. Fair Value Of Financial Instruments (Continued)

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, 2012			
Description	**Total**	**Multi-Strategy**	**Private Equity**	**Guaranteed Income Fund**
Beginning balance of assets and liabilities	**$ 8,758,044**	**$ 2,299,318**	**$ 6,259,333**	**$ 199,393**
Realized and unrealized gains, net	**855,179**	**179,128**	**657,073**	**18,978**
Purchases	**818,426**	**4,227**	**814,199**	**-**
Settlements	**(864,987)**	**(478,303)**	**(386,684)**	**-**
Ending balance of assets and liabilities	**$ 9,566,662**	**$ 2,004,370**	**$ 7,343,921**	**$ 218,371**

	December 31, 2011				
Description	Total	Event Driven	Multi-Strategy	Private Equity	Guaranteed Income Fund
Beginning balance of assets and liabilities	$ 14,412,819	$ 6,573,970	$ 3,283,066	$ 4,374,458	$ 181,325
Realized and unrealized (losses) gains, net	(1,472,293)	(1,746,650)	47,775	208,514	18,068
Purchases	2,255,989	-	124,219	2,131,770	-
Settlements	(6,438,471)	(4,827,320)	(1,155,742)	(455,409)	-
Ending balance of assets and liabilities	$ 8,758,044	$ -	$ 2,299,318	$ 6,259,333	$ 199,393

The following table provides additional disclosures on the Foundation's Level 2 and 3 alternative investment assets at December 31, 2012 and 2011:

Strategy Category	**Fair Value At December 31, 2012**	Fair Value At December 31, 2011	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy[(a)]	**$ 16,704,367**	$ 16,135,024	N/A	Daily to Quarterly	1-65 days
Global Equity Opportunities[(b)]	**15,322,187**	13,349,560	N/A	Quarterly	30 days
Private Equity [(c)]	**7,343,921**	6,259,333	(c)	N/A[(c)]	N/A
Traditional Equity [(d)]	**6,159,244**	5,407,105	N/A	Daily	30 days
Event-driven[(e)]	**2,982,025**	7,408,598	N/A	Quarterly to Semi-annual	60 days
Balanced Global Opportunistic [(f)]	**988,083**	1,103,658	N/A	Semi-annual	60 days
Equity Long/Short [(g)]	**-**	4,665,403	N/A	Quarterly	45 days
	$ 49,499,827	$ 54,328,681			

(a) Multi-strategy managers employ a combination of any of the other strategies mentioned and may shift amongst those strategies at any time as conditions permit. 16% 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.

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

Note 4. Fair Value Of Financial Instruments (Continued)

(c) 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. At December 31, 2012 and 2011, the unfunded commitments were $5,497,542 and $6,184,806, respectively. Private Equity partnerships permit redemption only amongst partners.

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

(e) 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.

(f) 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.

(g) 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.

Note 5. Property And Equipment

Property and equipment and accumulated depreciation consist of the following at December 31, 2012 and 2011:

	2012	2011
Land, building, and improvements	**$ 78,398,685**	$ 63,194,776
Office furniture and equipment	**10,836,376**	10,916,936
	89,235,061	74,111,712
Less accumulated depreciation	**(27,269,826)**	(24,709,498)
Property and equipment, net	**$ 61,965,235**	$ 49,402,214

Depreciation expense for the years ended December 31, 2012 and 2011, totaled $3,713,012 and $3,288,843, respectively.

Note 6. Notes Payable

Notes payable as of December 31, 2012 and 2011, are as follows:

	2012	2011
Note payable – 2012b	**$ 10,200,000**	$ -
Note payable – 2012a	**4,752,976**	-
Note payable – 2012c	**2,870,000**	-
Interest rate swap liability – 2012b	**499,799**	-
Interest rate swap liability – 2012a	**192,145**	-
Interest rate swap liability – 2012c	**176,507**	-
Note payable – 2002	**-**	3,383,333
Note payable – 2010	**-**	1,600,000
Interest rate swap liability – 2002	**-**	59,289
	18,691,427	5,042,622
Less current portion	**(369,583)**	(3,442,622)
Notes payable, long-term	**$ 18,321,844**	$ 1,600,000

During 2002, the Foundation obtained a $10 million note which was used to finance construction, building improvements and refinance existing debt (Note 2002). The unpaid principal balance of the note, plus accrued and unpaid interest, was due on May 31, 2012. A swap agreement was initiated with a term matching the note, with an effective interest rate of 4.09% per annum (Swap 2002). During 2010, the Foundation obtained an interest-only term loan in the amount of $1.6 million used for renovations (Note 2010). The unpaid principal balance of the note, plus accrued and unpaid interest, was due on May 26, 2015.

During 2012, these remaining loan balances were refinanced and consolidated into a $5,000,000 note that extended the maturity date to 2019 (Note 2012a). The principal balance is payable in 84 consecutive monthly installments. The unpaid principal balance of the note, plus accrued and unpaid interest, is due on February 27, 2019. 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. An interest rate swap agreement was initiated with a term matching the note, with an effective interest rate of 2.95% per annum (Swap 2012a).

During 2012, Massachusetts Avenue Properties, LLC obtained a note with a financial institution (Note 2012b). The total loan amount is $10,500,000 and as of December 31, 2012, the outstanding liability totaled $10,200,000. The principal balance is payable in 60 consecutive monthly installments. The unpaid principal balance of the note, plus accrued and unpaid interest, is due on May 7, 2019. 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. An interest rate swap agreement was initiated with a term matching the note and with an effective interest rate of 3.56% per annum (Swap 2012b).

Note 6. Notes Payable (Continued)

During 2012, 3rd Street Properties, LLC obtained a note with a financial institution (Note 2012c). The total loan amount is $4,000,000 and as of December 31, 2012, the outstanding liability totaled $2,870,000. The principal balance is payable in 72 consecutive monthly installments. The unpaid principal balance of the note, plus accrued and unpaid interest, is due on February 27, 2019. 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. In February 2013, an additional $1,000,000 draw occurred, which represented the final draw. Repayment of this additional draw commences in 2013 and is payable in 72 consecutive monthly installments. An interest rate swap agreement was initiated with a term matching the note, and with an effective interest rate of 3.07% per annum (Swap 2012c).

As of December 31, 2012, minimum future principal payments under these notes are as follows:

Years Ending December 31,	
2013	$ 369,583
2014	724,056
2015	960,167
2016	960,167
2017	960,167
Thereafter	13,848,836
	$ 17,822,976

Note 7. Line Of Credit

During 2012, the Foundation obtained a revolving bank line of credit of $5,000,000 from a financial institution. The revolving line of credit bears interest at LIBOR plus 125 basis points. It is secured by certain assets held in the Foundation's investment portfolio and requires that the Foundation maintain a debt service coverage ratio of at least 1.35 to1 and a ratio of unrestricted liquidity to funded debt of at least 2 to1. The line expires on August 31, 2013. There was no outstanding balance at December 31, 2012.

Note 8. Employee Benefits

Discretionary Contribution Plan – The Foundation provides a non-contributory discretionary contribution plan to all employees with at least one year of service who have attained the age of 21 and who worked at least 1,000 hours during the year. Expenditures for the plan were approximately $1,994,000 and $1,757,000 for the years ended December 31, 2012 and 2011, respectively. Employees vest at 25% 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 a 403(b) and 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 $4,387,041 and $3,833,588 at December 31, 2012 and 2011, respectively.

Note 9. Restricted Net Assets

The Foundation follows the Codification topic, *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*. The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006. The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted endowment gifts as of the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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

Temporarily restricted net assets at December 31, 2012 and 2011, consist of the following:

	2012	2011
Contributions restricted by purpose	**$ 562,765**	$ 661,401
Contributions restricted by passage of time	**11,761,420**	7,898,518
	$ 12,324,185	$ 8,559,919

Permanently restricted net assets represent funds that are subject to donor-imposed restrictions requiring the corpus to be held in perpetuity. At December 31, 2012 and 2011, permanently restricted net assets consist of the following:

	2012	2011
William E. Simon Fellow Endowment	**$ 1,000,000**	$ 1,000,000
Miller Family Fdn. Intern Endowment	**1,000,000**	200,000
William Grewcock Intern Endowment	**1,000,000**	-
John Bruning Intern Endowment	**200,000**	-
Westerman Intern Endowment	**100,000**	100,000
John R. & Margrite Davis Intern Endowment	**100,000**	100,000
	$ 3,400,000	$ 1,400,000

Note 9. Restricted Net Assets (Continued)

The Foundation's endowments consist entirely of donor restricted funds and the following is the endowment fund activity for the years ended December 31, 2012 and 2011:

	December 31, 2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Beginning of year	**$ -**	**$ 349,401**	**$ 1,400,000**	**$ 1,749,401**
Investment return, net	**-**	**181,172**	**-**	**181,172**
Amounts appropriated for expenditure	**-**	**(27,812)**	**-**	**(27,812)**
Contributions	**-**	**-**	**1,300,000**	**1,300,000**
End of year	**$ -**	**$ 502,761**	**$ 2,700,000**	**$ 3,202,761**

	December 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	$ -	$ 581,253	$ 1,300,000	$ 1,881,253
Investment loss, net	-	(150,715)	-	(150,715)
Amounts appropriated for expenditure	-	(81,137)	-	(81,137)
Contributions	-	-	100,000	100,000
End of year	$ -	$ 349,401	$ 1,400,000	$ 1,749,401

At December 31, 2012, the balance in the Foundation's permanently restricted endowment varies from the balance in the Foundation's permanently restricted net assets by $700,000, due to an outstanding contribution receivable.

Note 10. Operating 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, 2012, are as follows:

Years Ending December 31,	
2013	$ 184,196
2014	138,993
	$ 323,189

Expense incurred under these leases for the years ended December 31, 2012 and 2011, totaled $424,037 and $207,233, respectively.

Note 11. Related Party Transactions

The Foundation leases office space and provides administrative services to two related entities whose Boards of Directors are independent of the Foundation's Board of Trustees. The office space lease existing prior to June 2012 was mutually terminated and a new lease was created. In addition, an additional office lease was created for a newly formed related entity. These leases are on an annual basis. Lease income from related entities totaled $117,115 and $120,267 for 2012 and 2011, respectively. Contracts for administrative services are on an annual basis and begin on January 1. Administrative service contract income totaled $647,187 and $585,088 in 2012 and 2011, respectively. In 2011, the Foundation entered into a grant agreement with a 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 consolidated statement of activities for 2011, as a component of programs and grants.

The Heritage Foundation And Affiliates

Consolidated Schedule Of Functional Expenses
Year Ended December 31, 2012

	Program Services				Supporting Services			
	Research	Media And Government Relations	Educational Programs	Total	Management And General	Fundraising	Total	Total Expenses
Salaries	$ 14,124,148	$ 5,400,259	$ 4,043,391	$ 23,567,798	$ 625,898	$ 4,057,777	$ 4,683,675	$ 28,251,473
Scholars and consultants	1,692,637	606,515	3,077,761	5,376,913	29,911	3,438,372	3,468,283	8,845,196
Fringe benefits	3,527,412	1,308,002	1,077,300	5,912,714	213,055	914,809	1,127,864	7,040,578
Printing and mailing	125,519	117,040	4,754,746	4,997,305	5,269	1,941,783	1,947,052	6,944,357
Postage and freight	92,033	72,304	4,082,080	4,246,417	4,711	2,355,939	2,360,650	6,607,067
Conferences	2,448,527	1,343,761	1,458,677	5,250,965	21,772	225,847	247,619	5,498,584
Depreciation	1,146,738	450,035	950,738	2,547,511	507,557	657,944	1,165,501	3,713,012
Advertising	1,282,583	235,850	1,009,752	2,528,185	88	626,920	627,008	3,155,193
Occupancy charges	1,034,115	411,351	590,583	2,036,049	380,310	854	381,164	2,417,213
Taxes and licenses	530,769	177,015	447,830	1,155,614	40,885	247,268	288,153	1,443,767
On-line service fees	177,008	120,650	625,582	923,240	11,463	59,210	70,673	993,913
Professional fees	281,658	112,489	229,287	623,434	132,181	51,021	183,202	806,636
Supplies	266,225	73,701	98,102	438,028	16,076	91,940	108,016	546,044
Travel and subsistence	37,942	18,224	39,528	95,694	1,152	445,456	446,608	542,302
Telephone	220,771	94,668	88,289	403,728	12,137	62,788	74,925	478,653
Staff training	160,441	61,833	142,442	364,716	16,233	84,648	100,881	465,597
Subscriptions	114,780	125,645	81,755	322,180	4,045	17,885	21,930	344,110
Photography, copying, and recording	93,747	88,493	109,416	291,656	3,276	31,427	34,703	326,359
Interest expense	65,833	25,836	54,581	146,250	125,594	37,772	163,366	309,616
Maintenance	78,630	30,858	65,191	174,679	7,238	45,114	52,352	227,031
Insurance	96,388	38,576	55,799	190,763	18,298	17,732	36,030	226,793
Honoraria and writer's fees	119,233	10,000	36,000	165,233	-	55,000	55,000	220,233
Data processing	66,983	4,415	6,332	77,730	42,877	93,554	136,431	214,161
Rent	98,212	37,455	52,833	188,500	8,471	8,275	16,746	205,246
Leased equipment	68,687	26,956	56,947	152,590	6,323	39,410	45,733	198,323
Temporary assistance	81,530	19,312	62,943	163,785	4,527	21,010	25,537	189,322
Books	32,652	14,420	12,132	59,204	308	74,723	75,031	134,235
Miscellaneous	20,234	6,327	7,167	33,728	60,917	13,433	74,350	108,078
Other programs and grants	55,409	11,831	13,854	81,094	1,953	1,911	3,864	84,958
Total expenses	$ 28,140,844	$ 11,043,821	$ 23,331,038	$ 62,515,703	$ 2,302,525	$ 15,719,822	$ 18,022,347	$ 80,538,050

The Heritage Foundation And Affiliates

Consolidated Schedule Of Functional Expenses
Year Ended December 31, 2011

	Program Services				Supporting Services			
	Research	Media And Government Relations	Educational Programs	Total	Management And General	Fundraising	Total	Total Expenses
Salaries	$ 13,284,436	$ 5,592,091	$ 3,899,287	$ 22,775,814	$ 1,053,398	$ 3,013,441	$ 4,066,839	$ 26,842,653
Scholars and consultants	1,440,534	564,986	3,789,333	5,794,853	49,792	3,607,727	3,657,519	9,452,372
Printing and mailing	103,422	110,283	4,665,445	4,879,150	4,182	2,798,346	2,802,528	7,681,678
Conferences	2,441,554	1,704,611	1,734,628	5,880,793	62,046	352,915	414,961	6,295,754
Postage and freight	64,281	82,560	3,784,589	3,931,430	5,399	2,170,165	2,175,564	6,106,994
Fringe benefits	2,938,259	1,191,774	923,672	5,053,705	229,903	732,611	962,514	6,016,219
Advertising	2,332,420	219,323	1,521,100	4,072,843	370	761,214	761,584	4,834,427
Depreciation	1,042,386	499,811	1,006,051	2,548,248	84,982	655,613	740,595	3,288,843
Occupancy charges	942,224	451,455	594,695	1,988,374	76,844	121	76,965	2,065,339
On-line service fees	167,031	132,611	627,149	926,791	9,683	59,134	68,817	995,608
Taxes and licenses	73,976	23,165	410,839	507,980	97,215	249,523	346,738	854,718
Professional fees	185,947	76,923	221,984	484,854	92,538	5,848	98,386	583,240
Travel and subsistence	34,476	17,503	30,008	81,987	2,153	490,354	492,507	574,494
Staff training	204,455	100,171	145,298	449,924	71,781	35,748	107,529	557,453
Other programs and grants	64,579	413,144	41,789	519,512	3,596	2,275	5,871	525,383
Telephone	222,874	96,087	87,458	406,419	13,650	52,546	66,196	472,615
Supplies	204,705	62,632	73,969	341,306	10,718	86,615	97,333	438,639
Subscriptions	124,258	162,051	66,434	352,743	8,160	9,515	17,675	370,418
Photography, copying, and recording	59,879	83,660	91,867	235,406	3,387	50,012	53,399	288,805
Honoraria and writer's fees	117,162	3,300	36,220	156,682	-	128,500	128,500	285,182
Interest expense	66,239	31,761	63,930	161,930	5,400	41,661	47,061	208,991
Leased equipment	65,333	31,326	63,056	159,715	5,326	41,092	46,418	206,133
Insurance	85,132	40,820	53,774	179,726	17,035	4,238	21,273	200,999
Rent	82,422	39,802	57,960	180,184	7,005	6,487	13,492	193,676
Temporary assistance	100,080	18,181	24,979	143,240	2,894	44,771	47,665	190,905
Data processing	15,886	7,617	10,174	33,677	52,035	91,315	143,350	177,027
Maintenance	47,516	27,208	44,010	118,734	3,829	28,540	32,369	151,103
Books	32,324	5,162	27,134	64,620	973	69,990	70,963	135,583
Miscellaneous	16,637	7,279	5,720	29,636	1,095	7,846	8,941	38,577
Total expenses	$ 26,560,427	$ 11,797,297	$ 24,102,552	$ 62,460,276	$ 1,975,389	$ 15,598,163	$ 17,573,552	$ 80,033,828