

TAX FOUNDATION
Financial Statements
For the Year Ended December 31, 2015

and Report Thereon

(With Summarized Financial Information for the Year Ended December 31, 2014)



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
the Tax Foundation:

We have audited the accompanying financial statements of the Tax Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Tax Foundation's 2014 financial statements and, in our report dated May 11, 2015, we expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tax Foundation as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Cocchiaro & Associates, LLC

Cocchiaro & Associates, LLC
Alexandria, Virginia
June 6, 2016

TAX FOUNDATION
STATEMENT OF FINANCIAL POSITION
December 31, 2015
(With Summarized Comparative Information as of December 31, 2014)

	2015	2014
ASSETS		
Current Assets		
Cash	\$ 612,370	\$ 575,954
Grants and contributions receivable	183,000	131,477
Accounts receivable	2,800	13,500
Tenant improvement allowance receivable	-	412,250
Prepaid expenses	129,025	139,205
Total Current Assets	927,195	1,272,386
Investments	1,479,620	1,502,093
Deposits	81,708	81,708
Furniture and equipment, net	818,475	798,552
TOTAL ASSETS	\$ 3,306,998	\$ 3,654,739
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 115,945	\$ 556,362
Accrued loss on sublease, current portion	40,119	80,237
Deposits held	9,302	-
Deferred rent and lease incentive, current portion	40,373	80,967
Total Current Liabilities	205,739	717,566
Accrued loss on sublease, net of current portion	-	40,119
Deposits held	-	9,302
Deferred rent and lease incentive, net of current portion	1,006,817	575,407
TOTAL LIABILITIES	1,212,556	1,342,394
Commitments and risks		
NET ASSETS		
Unrestricted net assets	1,951,898	2,067,444
Temporarily restricted net assets	142,544	244,901
Total Net Assets	2,094,442	2,312,345
TOTAL LIABILITIES AND NET ASSETS	\$ 3,306,998	\$ 3,654,739

The accompanying notes are an integral part of these financial statements.

TAX FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015
(With Summarized Comparative Information for the Year Ended December 31, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
SUPPORT AND REVENUE				
Grants and contributions	\$ 2,028,059	\$ 1,118,683	\$ 3,146,742	\$ 3,412,353
Annual dinner, net	373,054	-	373,054	355,944
Investment income (loss)	(19,386)	-	(19,386)	48,887
Sublease and other income	114,199	-	114,199	12,866
Net assets released from restrictions	<u>1,221,040</u>	<u>(1,221,040)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>3,716,966</u>	<u>(102,357)</u>	<u>3,614,609</u>	<u>3,830,050</u>
EXPENSES				
Program Services				
Research and communications	2,817,428	-	2,817,428	2,186,734
Conferences	<u>3,255</u>	<u>-</u>	<u>3,255</u>	<u>28,466</u>
Total Program Services	<u>2,820,683</u>	<u>-</u>	<u>2,820,683</u>	<u>2,215,200</u>
Supporting Services				
General and administrative	369,312	-	369,312	201,959
Fundraising	<u>642,517</u>	<u>-</u>	<u>642,517</u>	<u>554,619</u>
Total Supporting Services	<u>1,011,829</u>	<u>-</u>	<u>1,011,829</u>	<u>756,578</u>
Total Expenses	<u>3,832,512</u>	<u>-</u>	<u>3,832,512</u>	<u>2,971,778</u>
Change in Net Assets before other changes	(115,546)	(102,357)	(217,903)	858,272
Other changes - loss on sublease agreement	<u>-</u>	<u>-</u>	<u>-</u>	<u>(124,726)</u>
Change in Net Assets	(115,546)	(102,357)	(217,903)	733,546
Net Assets, Beginning of Year	<u>2,067,444</u>	<u>244,901</u>	<u>2,312,345</u>	<u>1,578,799</u>
Net Assets, End of Year	<u>\$ 1,951,898</u>	<u>\$ 142,544</u>	<u>\$ 2,094,442</u>	<u>\$ 2,312,345</u>

The accompanying notes are an integral part of these financial statements.

TAX FOUNDATION
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2015
Increase (Decrease) in Cash

(With Summarized Comparative Information for the Year Ended December 31, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (217,903)	\$ 733,546
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	124,634	21,685
Net realized and unrealized (gains) losses	53,313	(16,350)
Amortization of loss on sublease agreement	(80,237)	124,726
Changes in assets and liabilities:		
(Increase) decrease in grants and contributions receivable	(51,523)	167,649
(Increase) decrease in accounts receivable	10,700	(5,500)
(Increase) decrease in prepaid expenses and deposits	10,180	(124,068)
Increase (decrease) in accounts payable and accrued expenses	(28,167)	88,416
Increase (decrease) in deposits held	-	9,302
Increase (decrease) in deferred rent and lease incentive	<u>390,816</u>	<u>(11,812)</u>
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES	<u>211,813</u>	<u>987,594</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of leasehold improvements, furniture, and equipment	(144,557)	(163,034)
Purchase of Investments	(45,879)	(2,722,607)
Sales of investments	<u>15,039</u>	<u>1,918,627</u>
NET CASH FLOW USED IN INVESTING ACTIVITIES	<u>(175,397)</u>	<u>(967,014)</u>
NET INCREASE IN CASH	36,416	20,580
CASH, BEGINNING OF YEAR	<u>575,954</u>	<u>555,374</u>
CASH, END OF YEAR	<u>\$ 612,370</u>	<u>\$ 575,954</u>
NON CASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of furniture and leasehold improvements	\$ <u>-</u>	\$ <u>625,489</u>
Deferred lease incentive liability	\$ <u>-</u>	\$ <u>(625,489)</u>
Tenant improvement allowance receivable	\$ <u>(412,250)</u>	\$ <u>412,250</u>
Accrued expenses related to leasehold improvements	\$ <u>412,250</u>	\$ <u>(412,250)</u>

The accompanying notes are an integral part of these financial statements.

TAX FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

1. Organization and Summary of Significant Accounting Policies

Organization

The Tax Foundation (the Foundation) is a 501(c)(3) nonprofit research and educational organization that was incorporated on September 14, 1990. The Foundation researches and analyzes various aspects of Federal, state and local tax policy to assess the impact that such policy has on the economy, businesses, individuals and families. This compilation and analysis of tax policy is the first stage in the process of educating business executives, policy makers and the public about the role tax policy plays in their lives and to help them differentiate sound tax policy from inefficient and destructive tax policy. The Foundation's operations are funded primarily through contributions from private foundations, corporations and individuals.

Cash and Cash Equivalents

The Foundation considers all demand deposit accounts, money market funds and highly liquid investments with an original maturity of three months or less, which are not a part of the long-term investment portfolio, to be cash equivalents. Also included in cash is \$9,305, representing cash held as a deposit under a sub-lease agreement.

Furniture and Equipment and Related Depreciation

Furniture and equipment are stated at cost and are depreciated using the straight-line method over estimated useful lives of three to five years, with no salvage value. The Foundation capitalizes purchases of furniture and equipment that cost \$2,500 or more. Purchases under this threshold are expensed. Expenditures for major repairs and improvements are capitalized; conversely, expenditures for minor repairs and maintenance costs are expensed when incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is reported in the statement of activities, as appropriate.

Investments

Investments are reported at fair value and are comprised of mutual funds. The Foundation reports the portion of its investment portfolio that is considered to be a long-term operating reserve as long-term investments, regardless of the maturity or liquidity of the underlying investments, because it is the intent of the organization that these funds will not be used in current operations. All other investments are classified as either short or long-term based on the remaining maturity of the security.

TAX FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

The net assets of the Foundation are classified as follows:

- Unrestricted net assets are available for the general operations of the Foundation
- Temporarily restricted net assets represents amounts restricted by the donor for specific purposes or periods of time

Revenue Recognition

The Foundation recognizes revenue from unconditional grants and contributions when notification of the commitment (promise) is received from the donor. Promises received as of December 31, 2015 and 2014, for which the cash had not been received, are reported as grants and contributions receivable in the accompanying statement of financial position. The Foundation reports contributions of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional contributions are recognized as revenue when the conditions have been met. At December 31, 2015, \$50,000 of conditional promises to give had not been recognized because the conditions necessary to receive the funding had not been met.

Revenue from the Annual Dinner is recognized when earned and is reported net of direct benefits to donors of \$135,647 and \$122,986 for the years ended December 31, 2015 and 2014, respectively, in the accompanying statements of activities.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. General and administrative costs have been allocated to the programs and supporting services proportionately based on direct personnel costs.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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TAX FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

2. Grants and Contributions Receivable

At December 31, 2015 and 2014, grants and contributions receivable is comprised of amounts due from donors in the amount of \$183,000 and \$131,477, respectively. \$30,000 of the grants and contributions receivable at December 31, 2015, is restricted by the donor for the Social Security Project. At December 31, 2015, all amounts are due within one year and are considered fully collectible.

3. Furniture and Equipment

Furniture and equipment and the related accumulated depreciation as of December 31, 2015 and 2014, were as follows:

	2015	2014
Leasehold Improvements	\$ 629,790	\$ 554,053
Furniture and equipment	352,303	283,483
Website and software	43,475	43,475
 Total Furniture and Equipment	 1,025,568	 881,011
Less: accumulated depreciation and amortization	(207,093)	(82,459)
Furniture and equipment, net	\$ 818,475	\$ 798,552

4. Long-term Investments

At December 31, 2015 and 2014, long-term investments were comprised of the following:

	2015	2014
Mutual funds - equity and index funds	\$ 1,479,620	\$ 1,499,415
Other marketable securities	-	2,678
Total	\$ 1,479,620	\$ 1,502,093

Investment income (loss) for the years ended December 31, 2015 and 2014, was comprised of the following:

	2015	2014
Interest and dividends	\$ 33,927	\$ 32,537
Net realized and unrealized gains (losses)	(53,313)	16,350
Total	\$ (19,386)	\$ 48,887

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TAX FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

5. Temporarily Restricted Net Assets

At December 31, 2015 and 2014, temporarily restricted net assets were available for the following programs and time periods:

	2015	2014
State Chartbooks	\$ 63,904	\$ 50,086
Facts and Figures App	35,000	-
Social Security	30,000	-
Education and Briefings	13,333	24,567
Location Matters	-	104,474
Tax Modeling	-	65,467
Other	307	307
Total	\$ 142,544	\$ 244,901

6. Retirement Plan

The Foundation maintains a defined contribution 401(k) retirement plan for eligible employees. Eligible employees may contribute to the plan up to the maximum limits set by the Internal Revenue Service. The Foundation provides matching contributions. Retirement expense for the year ended December 31, 2015 and 2014 was \$54,973 and \$41,704, respectively.

7. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Foundation is exempt from the payment of taxes on income other than net unrelated business income. For the years ended December 31, 2015 and 2014, the Foundation had no net unrelated business income and accordingly, no provision for income taxes was required.

Financial Accounting Standards Board (FASB) ASC 740-10, Income Taxes, provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2015 and 2014, the Foundation has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. Federal information returns (form 990) for the years ended December 31, 2014, 2013, and 2012 remain open with Federal taxing authorities. The Foundation has no state income tax filing requirements currently in any jurisdiction.

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TAX FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

8. Lease Commitment

In June 2014, the Foundation entered into a 12 year operating lease agreement for office space located in Washington DC. The lease commenced in January 2015 and requires monthly rental payments of \$32,072, with annual escalations of approximately 2.5% and pass through of increases in operating costs and taxes. In addition, the lease provides for 13 months of rent abatement and a tenant improvement allowance of \$85 per square foot or \$681,530. As of December 31, 2014, the landlord owed the Foundation and its contractors \$412,250 for the costs of leasehold improvements and furniture eligible for reimbursement under the lease incentive provisions of the lease.

The Foundation also leases office space in Washington DC under an operating lease agreement entered into in 2009. The terms of the this lease require monthly rental payments of \$14,985 for the first year with predetermined annual increases and a pro-rata share of the annual increase in operating expenses and property taxes. The lease expires in June 2016. In December 2014, the Foundation entered into a sublease agreement to sublease this office space through the end of the lease term. The expected costs of the lease exceeded the expected sublease rental income over the remaining lease term, resulting in a loss on the sublease of \$124,726 for the year ended December 31, 2014. This loss is reported as an other change in net assets in the accompanying statement of activities. The total sub-lease rentals expected for the remaining six months of the sublease are \$54,052.

Future minimum lease payments under the leases is as follows:

<u>Years Ending</u> <u>December 31,</u>	
2016	\$ 468,194
2017	404,348
2018	414,456
2019	424,818
2020	440,854
2021 and thereafter	<u>2,886,460</u>
Total	<u>\$ 5,039,130</u>

Total occupancy expense recorded by the Foundation for the years ended December 31, 2015 and 2014, was \$471,031 and \$195,542, respectively.

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TAX FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

9. Fair Value Measurements

Financial Accounting Standards Board FASB ASC 820, *Fair Value Measurements* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels within the hierarchy in order of priority are:

- Level 1 - unadjusted quoted prices for identical assets or liabilities in an active market
- Level 2 - quoted prices for similar assets or liabilities in a in active markets, quoted prices for identical assets and liabilities in inactive markets, observable input other than quoted prices, or inputs derived from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs which are unobservable and significant to the fair value measurement.

An asset's or liabilities' fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following table sets forth by level, within the fair value hierarchy, the assets of the Foundation reported at fair value on a recurring basis in the accompanying statement of financial position:

At December 31, 2015:

	<u>Level 1</u>
Mutual Funds	\$ <u>1,479,620</u>

At December 31, 2014:

	<u>Level 1</u>
Mutual funds	\$ 1,499,415
Other marketable securities	<u>2,678</u>
Total	\$ <u>1,502,093</u>

As of and for the years ended December 31, 2015 and 2014, the Foundation had no liabilities valued at fair value on a recurring basis or assets or liabilities valued at fair value on a non recurring basis which required disclosure.

TAX FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2015 and 2014

10. Concentration of Risk

Concentration of Revenue

For the year ended December 31, 2015, the Foundation received 21% of the total grants and contribution revenue recognized from two donors. If the Foundation were to experience a reduction in this level of funding in the future, it may have an impact on the Foundation's ability to carry out certain programs and other activities. Management of the Foundation does not anticipate any reduction in its current funding levels as a result of this concentration.

Concentration of Credit Risk

At December 31, 2015, the amount held in the Foundation's operating account exceeded the amount guaranteed by the Federal Deposit Insurance Corporation by \$346,273. The Foundation has not experienced, nor does it anticipate, any loss of funds as a result of this concentration.

11. Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the years ended December 31, 2014, from which the summarized information was prepared.

12. Subsequent Event

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 6, 2016, the date the financial statements were available to be issue

13. Reclassifications

Certain 2014 amounts have been reclassified to conform to the 2015 financial statement presentation.