TAX FOUNDATION

Financial Statements

For the Year Ended December 31, 2014

and Report Thereon

(With Summarized Financial Information for the Year Ended December 31, 2013)

Cocchiaro & Associates
Certified Public Accountants and Consultants

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, 2014, 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 2013 financial statements and, in our report dated April 11, 2014, 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, 2014, 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
May 11, 2015

TAX FOUNDATION
STATEMENT OF FINANCIAL POSITION
December 31, 2014
(With Summarized Comparative Information as of December 31, 2013)

	2014	2013
ASSETS		
Current Assets		
Cash	$ 575,954	$ 555,374
Grants and contributions receivable	131,477	299,126
Accounts receivable	13,500	8,000
Tenant improvement allowance receivable	412,250	-
Prepaid expenses	139,205	51,888
Total Current Assets	1,272,386	914,388
Investments	1,502,093	681,766
Deposits	81,708	44,957
Furniture and equipment, net	798,552	36,081
TOTAL ASSETS	$ 3,654,739	$ 1,677,192
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	$ 556,362	$ 55,696
Accrued loss on sublease, current portion	80,237	-
Deferred rent and lease incentive, current portion	80,967	12,983
Total Current Liabilities	717,566	68,679
Accrued loss on sublease, net of current portion	40,119	-
Deposits held	9,302	-
Deferred rent and lease incentive, net of current portion	575,407	29,714
TOTAL LIABILITIES	1,342,394	98,393
Commitments and risks		
NET ASSETS		
Unrestricted net assets	2,067,444	1,269,255
Temporarily restricted net assets	244,901	309,544
Total Net Assets	2,312,345	1,578,799
TOTAL LIABILITIES AND NET ASSETS	$ 3,654,739	$ 1,677,192

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

TAX FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014
(With Summarized Comparative Information for the Year Ended December 31, 2013)

	Unrestricted	Temporarily Restricted	2014 Total	2013 Total
SUPPORT AND REVENUE				
Grants and contributions	$ 2,257,249	$ 1,155,104	$ 3,412,353	$ 2,701,886
Annual dinner, net	355,944	-	355,944	230,389
Investment income	48,887	-	48,887	80,104
Other income	12,866	-	12,866	12,014
Net assets released from restrictions	1,219,747	(1,219,747)	-	-
Total Support and Revenue	3,894,693	(64,643)	3,830,050	3,024,393
EXPENSES				
Program Services				
Research and communications	2,186,734	-	2,186,734	1,819,457
Conferences	28,466	-	28,466	1,612
Total Program Services	2,215,200	-	2,215,200	1,821,069
Supporting Services				
General and administrative	201,959	-	201,959	211,880
Fundraising	554,619	-	554,619	436,719
Total Supporting Services	756,578	-	756,578	648,599
Total Expenses	2,971,778	-	2,971,778	2,469,668
Change in Net Assets before other changes	922,915	(64,643)	858,272	554,725
Other changes - loss on sublease agreement	(124,726)	-	(124,726)	-
Change in Net Assets	798,189	(64,643)	733,546	554,725
Net Assets, Beginning of Year	1,269,255	309,544	1,578,799	1,024,074
Net Assets, End of Year	$ 2,067,444	$ 244,901	$ 2,312,345	$ 1,578,799

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

TAX FOUNDATION
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2014
Increase (Decrease) in Cash
(With Summarized Comparative Information for the Year Ended December 31, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 733,546	$ 554,725
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	21,685	17,420
Net realized and unrealized gains	(16,350)	(71,333)
Loss on sublease agreement	124,726	-
Changes in assets and liabilities:		
(Increase) decrease in grants and contributions receivable	167,649	(221,306)
(Increase) decrease in accounts receivable	(5,500)	(4,137)
(Increase) decrease in prepaid expenses and deposits	(124,068)	(16,639)
Increase (decrease) in accounts payable and accrued expenses	88,416	(27,491)
Increase (decrease) in deposits held	9,302	-
Increase (decrease) in deferred rent and lease incentive	(11,812)	(5,818)
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES	987,594	225,421
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of leasehold improvements, furniture, and equipment	(163,034)	(13,514)
Purchase of Investments	(2,722,607)	(8,173)
Sales of investments	1,918,627	-
NET CASH FLOW USED IN INVESTING ACTIVITIES	(967,014)	(21,687)
NET INCREASE IN CASH	20,580	203,734
CASH, BEGINNING OF YEAR	555,374	351,640
CASH, END OF YEAR	$ 575,954	$ 555,374
NON CASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of furniture and leasehold improvements	$ 625,489	$ -
Deferred lease incentive liability	$ (625,489)	$ -
Tenant improvement allowance receivable	$ 412,250	$ -
Accrued expenses related to leasehold improvements	$ (412,250)	$ -

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

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, a money market fund, and a certificate of deposit. The certificate of deposit is carried at cost plus accumulated interest, which approximates fair value. 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.

(continued)

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, 2014 and 2013, 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. Revenue from the Annual Dinner is recognized when earned and is reported net of direct benefits to donors of $122,986 and $95,418 for the years ended December 31, 2014 and 2013, 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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2. Grants and Contributions Receivable

At December 31, 2014 and 2013, grants and contributions receivable is comprised of amounts due from donors in the amount of $131,477 and $299,126, respectively. At December 31, 2014, 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, 2014 and 2013, were as follows:

	2014	2013
Leasehold Improvements	$ 554,053	$ -
Furniture and equipment	283,483	105,509
Website and software	43,475	43,475
Total Furniture and Equipment	881,011	148,984
Less: accumulated depreciation	(82,459)	(112,903)
Furniture and equipment, net	$ 798,552	$ 36,081

4. Long-term Investments

At December 31, 2014 and 2013, long-term investments were comprised of the following:

	2014	2013
Mutual funds - equity and index funds	$ 1,499,415	$ 399,735
Money market funds	-	251,408
Certificates of deposit and other	2,678	30,623
Total	$ 1,502,093	$ 681,766

Investment income (loss) for the years ended December 31, 2014 and 2013, was comprised of the following:

	2014	2013
Interest and dividends	$ 32,537	$ 8,771
Net realized and unrealized gains and losses	16,350	71,333
Total	$ 48,887	$ 80,104

(continued)

5. Temporarily Restricted Net Assets

At December 31, 2014 and 2013, temporarily restricted net assets were available for the following programs and time periods:

	2014	2013
Location Matters	$ 104,474	$ 196,645
Tax Modeling	65,467	79,137
Illinois Project	50,086	-
Education and Briefings	24,567	17,248
Putting a Face/Chartbook	-	16,514
Other	307	-
Total	$ 244,901	$ 309,544

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, 2014 and 2013 was $41,704 and $33,091, 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, 2014 and 2013, 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, 2014 and 2013, 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, 2013, 2012 and 2011 remain open with Federal taxing authorities. The Foundation has no state income tax filing requirements currently in any jurisdiction.

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8. Lease Commitment

The Foundation leases its office space in Washington DC under an operating lease agreement (the lease) entered into in 2009. The terms of the 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 agreement provides for an abatement of the first two months rent totaling $29,970. The lease expires in June 2016.

In June 2014, the Foundation entered into a new 12 year operating lease agreement for new office space located in Washington DC. The new 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 new lease provides for 13 months of rent abatement and a tenant improvement allowance of $85 per square foot or $681,530. At December 31, 2014, the Foundation had utilized $625,489 of the allowance, which is included in deferred rent and lease incentive on the accompanying statement of financial position. 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.

In December 2014, the Foundation entered into a sublease agreement to sublease the existing office space through the end of the lease term in June 2016. The total sub-lease rentals expected under the terms of the 18 month sublease are $162,158. The remaining lease payments, loss on furniture transferred, and estimated pass through costs under the existing lease through June 2016, net of unamortized deferred rent, are $286,884, resulting in a recognized loss on the sublease of $124,726. This loss is reported as an other change in net assets in the accompanying statement of activities.

Future minimum lease payments under the leases is as follows:

Years Ending December 31,	
2015	$ 210,021
2016	468,995
2017	404,348
2018	414,456
2019	424,818
2020 and thereafter	3,327,314
Total	$ 5,249,952

Total occupancy expense recorded by the Foundation for the years ended December 31, 2014 and 2013, was $195,542 and $192,254, respectively.

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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, 2014:

	Level 1
Mutual Funds	$ 1,499,415
Certificates of Deposit	2,678
Total	$ 1,502,093

At December 31, 2013:

	Level 1
Investments:	
Money Market Funds	$ 251,408
Mutual Funds	399,735
Certificates of Deposit	30,623
Total	$ 681,766

As of and for the years ended December 31, 2014 and 2013, 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.

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10. Concentration of Risk

Concentration of Revenue

For the year ended December 31, 2014, the Foundation received 22% 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.

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, 2013, 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 May 11, 2015, the date the financial statements were available to be issue

13. Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 financial statement presentation.