

**TAX FOUNDATION**  
**Financial Statements**  
*For the Year Ended December 31, 2012*

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**and Report Thereon**

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*(With Summarized Financial Information for the Year Ended December 31, 2011)*



## 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, 2012, 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 2011 financial statements and, in our report dated April 5, 2012, 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, 2012, 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.

A handwritten signature in cursive script that reads "Cocchiaro &amp; Associates, LLC".

Cocchiaro & Associates, LLC  
February 27, 2013  
Alexandria, Virginia

**TAX FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2012**  
**(With Summarized Comparative Information as of December 31, 2011)**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 351,640	\$ 119,153
Grants and contributions receivable	77,820	45,000
Accounts receivable	3,863	7,653
Prepaid expenses	<u>65,220</u>	<u>14,485</u>
Total Current Assets	498,543	186,291
Investments	571,653	524,781
Certificate of deposit, restricted	30,607	30,593
Deposits	14,986	14,986
Furniture and equipment, net	<u>39,987</u>	<u>39,812</u>
TOTAL ASSETS	<u>\$ 1,155,776</u>	<u>\$ 796,463</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 83,187	\$ 35,082
Deferred rent, current portion	<u>4,646</u>	<u>-</u>
Total Current Liabilities	87,833	35,082
Deferred rent, net of current portion	<u>43,869</u>	<u>48,862</u>
TOTAL LIABILITIES	<u>131,702</u>	<u>83,944</u>
Commitments and risks		
<b>NET ASSETS</b>		
Unrestricted net assets	924,850	635,895
Temporarily restricted net assets	<u>99,224</u>	<u>76,624</u>
Total Net Assets	<u>1,024,074</u>	<u>712,519</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,155,776</u>	<u>\$ 796,463</u>

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

**TAX FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2012**  
**(With Summarized Comparative Information for the Year Ended December 31, 2011)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
<b>SUPPORT AND REVENUE</b>				
Grants and contributions	\$ 1,413,070	\$ 501,739	\$ 1,914,809	\$ 1,695,201
Annual dinner, net	237,643	-	237,643	169,314
Investment income (loss)	46,980	-	46,980	(39,087)
Other income	13,944	-	13,944	11,296
Net assets released from restrictions	<u>479,139</u>	<u>(479,139)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>2,190,776</u>	<u>22,600</u>	<u>2,213,376</u>	<u>1,836,724</u>
<b>EXPENSES</b>				
<b>Program Services</b>				
Research and communications	1,229,005	-	1,229,005	1,248,827
Conferences	<u>25,604</u>	<u>-</u>	<u>25,604</u>	<u>1,500</u>
Total Program Services	<u>1,254,609</u>	<u>-</u>	<u>1,254,609</u>	<u>1,250,327</u>
<b>Supporting Services</b>				
General and administrative	228,520	-	228,520	138,339
Fundraising	<u>418,692</u>	<u>-</u>	<u>418,692</u>	<u>380,162</u>
Total Supporting Services	<u>647,212</u>	<u>-</u>	<u>647,212</u>	<u>518,501</u>
Total Expenses	<u>1,901,821</u>	<u>-</u>	<u>1,901,821</u>	<u>1,768,828</u>
Change in Net Assets	288,955	22,600	311,555	67,896
Net Assets, Beginning of Year	<u>635,895</u>	<u>76,624</u>	<u>712,519</u>	<u>644,623</u>
Net Assets, End of Year	<u>\$ 924,850</u>	<u>\$ 99,224</u>	<u>\$ 1,024,074</u>	<u>\$ 712,519</u>

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

**TAX FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Year Ended December 31, 2012**  
**Increase (Decrease) in Cash**

**(With Summarized Comparative Information for the Year Ended December 31, 2011)**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 311,555	\$ 67,896
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	12,766	10,258
Net realized and unrealized (gains) losses	(39,160)	45,473
Changes in assets and liabilities:		
(Increase) decrease in grants and contributions receivable	(32,820)	17,000
(Increase) decrease in accounts receivable	3,790	(3,860)
(Increase) decrease in prepaid expenses	(50,735)	(1,740)
Increase (decrease) in accounts payable and accrued expenses	48,105	(4,683)
Increase (decrease) in deferred rent	<u>(347)</u>	<u>3,843</u>
<b>NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES</b>	<u>253,154</u>	<u>134,187</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of furniture and equipment	(12,942)	(32,098)
Purchase of Investments	(7,725)	(236,962)
Sales of investments	<u>-</u>	<u>80,577</u>
<b>NET CASH FLOW USED IN INVESTING ACTIVITIES</b>	<u>(20,667)</u>	<u>(188,483)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	232,487	(54,296)
<b>CASH, BEGINNING OF YEAR</b>	<u>119,153</u>	<u>173,449</u>
<b>CASH, END OF YEAR</b>	<u>\$ 351,640</u>	<u>\$ 119,153</u>

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

**TAX FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2012 and 2011**

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.

**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 and a money market fund. The Foundation also holds a certificate of deposit required as collateral for the letter of credit (see note 6), that is recorded at cost plus accumulated interest. 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, 2012 and 2011**

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, 2012 and 2011, 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 \$76,018 and \$54,086, for the years ended December 31, 2012 and 2011, 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, 2012 and 2011**

2. Grants and Contributions Receivable

At December 31, 2012 and 2011, grants and contributions receivable is comprised of amounts due from donors in the amount of \$77,820 and \$45,000, respectively. All amounts are considered fully collectible and are due within one year.

3. Furniture and Equipment

Furniture and equipment and the related accumulated depreciation as of December 31, 2012 and 2011, were as follows:

	2012	2011
Furniture and equipment	\$ 91,995	\$ 79,053
Website	30,500	30,500
Software	12,975	12,975
 Total Furniture and Equipment	 135,470	 122,528
Less: accumulated depreciation	(95,483)	(82,716)
 Furniture and equipment, net	 \$ 39,987	 \$ 39,812

4. Long-term Investments

At December 31, 2012 and 2011, long-term investments were comprised of the following:

	2012	2011
Money market funds	\$ 251,377	\$ 251,337
Mutual funds - equity index funds	320,276	273,444
 Total	 \$ 571,653	 \$ 524,781

Investment income (loss) for the years ended December 31, 2012 and 2011, was comprised of the following:

	2012	2011
Interest and dividends	\$ 7,820	\$ 6,386
Net realized and unrealized gains and losses	39,160	(45,473)
 Total	 \$ 46,980	 \$ (39,087)

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**TAX FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2012 and 2011**

5. Temporarily Restricted Net Assets

At December 31, 2012 and 2011, temporarily restricted net assets were available for the following programs and time periods:

	2012	2011
Tax Modeling	\$ 57,904	\$ -
State Tax System Study	16,834	-
Internship Program	14,486	-
Education and Briefings	10,000	-
Taxes and Fees	-	38,000
Estate Taxes	-	28,117
Compete USA	-	10,507
Total	\$ 99,224	\$ 76,624

6. Irrevocable Standby Letter of Credit

The Foundation is obligated under an irrevocable standby letter of credit (LOC) in the amount of \$29,971. The LOC was required as a deposit under the terms of the building lease discussed in Note 9 to these financial statements. The LOC automatically renews for a period of one year unless written notification is received. The terms of the letter of credit arrangement required the Foundation to open a certificate of deposit account with the financial institution to serve as collateral. This certificate of deposit is reported as a certificate of deposit in the accompanying statement of financial position in the amount of \$30,607.

7. 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, 2012 and 2011 was \$29,558 and \$15,956, respectively.

8. Subsequent Event

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through February 27, 2013, the date the financial statements were available to be issued.

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**TAX FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2012 and 2011**

9. Lease Commitment

The Foundation leases its office space in Washington DC under an operating lease agreement (the Agreement) entered into in 2009. The terms of the Agreement 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 Agreement expires in June 2016. In accordance with accounting principles generally accepted in the United States of America, the Foundation recognizes rent expense on a straight-line basis over the term of the lease and a deferred rent liability is recorded for the difference between the actual cash payments for rent and the recorded expense. Future minimum lease payments under the leases is as follows:

<u>Years Ending</u> <u>December 31,</u>	
2013	\$ 195,124
2014	203,462
2015	210,021
2016 and thereafter	<u>106,581</u>
Total	<u>\$ 715,188</u>

Total occupancy expense recorded by the Foundation for the years ended December 31, 2012 and 2011, was \$192,192 and \$192,477, respectively.

10. 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, 2012 and 2011, 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, 2012 and 2011, 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, 2011, 2010 and 2009 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, 2012 and 2011**

11. 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, 2012:

	<u>Level 1</u>
Money Market Funds and cash	\$ 251,377
Mutual Funds	320,276
Certificates of Deposit	<u>30,607</u>
Total	<u>\$ 602,260</u>

At December 31, 2011:

	<u>Level 1</u>
Investments:	
Money Market Funds	\$ 251,337
Mutual Funds	273,444
Certificates of Deposit	<u>30,593</u>
Total	<u>\$ 555,374</u>

As of and for the years ended December 31, 2012 and 2011, 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, 2012 and 2011**

12. Concentration of Risk

**Concentration of Revenue**

For the year ended December 31, 2011, the Foundation received 24% of the total grants and contribution revenue recognized from two donors. The Foundation also generated 15% of its total revenue from one special event. 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 these concentrations.

13. 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, 2011, from which the summarized information was prepared.

14. Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 financial statement presentation.