

**TAX FOUNDATION**  
**Financial Statements**  
*For the Year Ended December 31, 2010*

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**and Report Thereon**

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*(With Summarized Financial Information for the Year Ended December 31, 2009)*



**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
the Tax Foundation

We have audited the accompanying statement of financial position of the Tax Foundation as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Tax Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2009 financial statements and, in our report dated May 3, 2010, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

*Cocchiaro & Associates, LLC*

Cocchiaro & Associates, LLC

February 25, 2011

Alexandria, Virginia

**TAX FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2010**  
**(With Summarized Comparative Information as of December 31, 2009)**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 173,449	\$ 55,415
Grants and contributions receivable	62,000	35,000
Accounts receivable	3,793	-
Prepaid expenses and other assets	<u>27,731</u>	<u>35,167</u>
Total Current Assets	266,973	125,582
Investments	413,883	668,874
Certificate of deposit, restricted	30,577	30,556
Furniture and Equipment, Net	<u>17,974</u>	<u>27,333</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 729,407</u></b>	<b><u>\$ 852,345</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued expenses	<u>\$ 39,765</u>	<u>\$ 115,539</u>
Total Current Liabilities	39,765	115,539
Deferred rent	<u>45,019</u>	<u>36,505</u>
<b>TOTAL LIABILITIES</b>	<b><u>84,784</u></b>	<b><u>152,044</u></b>
Commitments and risks		
<b>NET ASSETS</b>		
Unrestricted net assets	621,836	622,661
Temporarily restricted net assets	<u>22,787</u>	<u>77,640</u>
Total Net Assets	<u>644,623</u>	<u>700,301</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 729,407</u></b>	<b><u>\$ 852,345</u></b>

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

**TAX FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2010**  
**(With Summarized Comparative Information for the Year Ended December 31, 2009)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
<b>SUPPORT AND REVENUE</b>				
Grants and contributions -general	\$ 1,260,405	\$ 369,725	\$ 1,630,130	\$ 1,535,453
Annual dinner, net	190,625	-	190,625	170,069
Investment income	20,030	-	20,030	36,883
Other income	29,473	-	29,473	29,004
Net assets released from restrictions	<u>424,578</u>	<u>(424,578)</u>	<u>-</u>	<u>-</u>
<b>Total Support and Revenue</b>	<u>1,925,111</u>	<u>(54,853)</u>	<u>1,870,258</u>	<u>1,771,409</u>
<b>EXPENSES</b>				
<b>Program Expenses</b>				
Research and communications	1,230,988	-	1,230,988	1,428,009
Conferences	<u>20,765</u>	<u>-</u>	<u>20,765</u>	<u>31,887</u>
<b>Total Program Expenses</b>	<u>1,251,753</u>	<u>-</u>	<u>1,251,753</u>	<u>1,459,896</u>
<b>Supporting Services</b>				
General and administrative	200,766	-	200,766	277,640
Fundraising	<u>473,417</u>	<u>-</u>	<u>473,417</u>	<u>481,648</u>
<b>Total Supporting Services</b>	<u>674,183</u>	<u>-</u>	<u>674,183</u>	<u>759,288</u>
<b>Total Expenses</b>	<u>1,925,936</u>	<u>-</u>	<u>1,925,936</u>	<u>2,219,184</u>
<b>Change in Net Assets</b>	(825)	(54,853)	(55,678)	(447,775)
<b>Net Assets, Beginning of Year</b>	<u>622,661</u>	<u>77,640</u>	<u>700,301</u>	<u>1,148,076</u>
<b>Net Assets, End of Year</b>	<u>\$ 621,836</u>	<u>\$ 22,787</u>	<u>\$ 644,623</u>	<u>\$ 700,301</u>

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

**TAX FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Year Ended December 31, 2010**  
**Increase (Decrease) in Cash and Cash Equivalents**  
**(With Summarized Comparative Information for the Year Ended December 31, 2009)**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (55,678)	\$ (447,775)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	12,088	11,190
Unrealized (gains) losses	(16,123)	(32,181)
Changes in assets and liabilities:		
(Increase) decrease in grants and contributions receivable	(27,000)	29,319
(Increase) decrease in accounts receivable	(3,793)	10,000
(Increase) decrease in prepaid expenses and other assets	7,436	5,334
Increase (decrease) in accounts payable and accrued expenses	(75,774)	4,615
Increase (decrease) in deferred rent	<u>8,514</u>	<u>22,424</u>
<b>NET CASH FLOW PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>(150,330)</u>	<u>(397,074)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of furniture and equipment	(2,729)	(14,345)
Purchase of Investments	(34,483)	(560,896)
Sales of investments	<u>305,576</u>	<u>581,856</u>
<b>NET CASH FLOW PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>268,364</u>	<u>6,615</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	118,034	(390,459)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>55,415</u>	<u>445,874</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 173,449</u>	<u>\$ 55,415</u>

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

**TAX FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2010 and 2009**

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 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 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.

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**TAX FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2010 and 2009**

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, 2010 and 2009, 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. Donor restricted contributions whose restrictions are met in the same reporting period in which the revenue is recognized are reported as unrestricted support. Revenue from the Annual Dinner is recognized when earned and is reported net of direct benefits to donors of \$53,190 and \$49,118, for the years ended December 31, 2010 and 2009, 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, 2010 and 2009**

2. Grants and Contributions Receivable

At December 31, 2010 and 2009, grants and contributions receivable is comprised of amounts due from donors in the amount of \$62,000 and \$35,000, 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, 2010 and 2009, were as follows:

	2010	2009
Furniture and equipment	\$ 132,641	\$ 129,913
Less: accumulated depreciation	(114,668)	(90,578)
Furniture and equipment, net	\$ 17,973	\$ 39,335

4. Long-term Investments

At December 31, 2010 and 2009, long-term investments were comprised of the following:

	2010	2009
Money market funds	\$ 251,297	\$ 526,251
Mutual funds - equity index funds	162,586	142,623
Total	\$ 413,883	\$ 668,874

Investment income for the years ended December 31, 2010 and 2009 was comprised of the following:

	2010	2009
Interest and dividends	\$ 3,907	\$ 4,702
Unrealized gains and losses	16,123	32,181
Total	\$ 20,030	\$ 36,883

(continued)



**TAX FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2010 and 2009**

5. Temporarily Restricted Net Assets

At December 31, 2010 and 2009, temporarily restricted net assets were available for the following programs and time periods:

	2010	2009
Fifty States Corporate Competitiveness	\$ 15,000	\$ -
Viral Video	7,448	17,805
Fiscal Incidence	-	30,595
Visiting Fellows	-	13,795
Cap and Trade Study	-	1,645
Other	339	13,800
Total	\$ 22,787	\$ 77,640

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 7 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 \$30,577.

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, 2010 and 2009 was \$25,311 and \$15,859, respectively.

8. Subsequent Event

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through February 25, 2011, 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, 2010 and 2009**

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 new and prior office leases are as follows:

<u>Years Ending</u> <u>December 31,</u>	
2011	\$ 186,636
2012	190,825
2013	195,124
2013	203,462
2015	210,021
2016 and thereafter	<u>106,581</u>
Total	<u>\$ 1,092,649</u>

Total occupancy expense recorded by the Foundation for the years ended December 31, 2010 and 2009, was approximately \$190,478 and \$159,187, 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, 2010 and 2009, 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 (formerly FIN 48), Income Taxes, provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2010 and 2009, 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, 2009, 2008 and 2007 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, 2010 and 2009**

11. Fair Value Measurements

Financial Accounting Standards Board FASB ASC 820 (formerly FASB Statement number 157, *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 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, 2010:

	Level 1
Money Market Funds and cash	\$ 251,297
Mutual Funds	162,586
Certificates of Deposit	30,577
Total	\$ 444,460

At December 31, 2009:

	Level 1
Investments:	
Money Market Funds	\$ 526,251
Mutual Funds	142,623
Certificates of Deposit	30,556
Total	\$ 699,430

As of and for the years ended December 31, 2010 and 2009, 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 in accordance with Statement 157.

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**TAX FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2010 and 2009**

12. 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, 2009, from which the summarized information was prepared.

13. Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 financial statement presentation.