# TAX FOUNDATION

## Financial Statements

*For the Year Ended December 31, 2017*

## and Report Thereon

*(With Summarized Financial Information for the Year Ended December 31, 2016)*

**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, 2017, 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 2016 financial statements and, in our report dated July 5, 2017, 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, 2017, 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
September 21, 2018

**TAX FOUNDATION**
**STATEMENT OF FINANCIAL POSITION**
**December 31, 2017**
**(With Summarized Comparative Information as of December 31, 2016)**

| | 2017 | 2016 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash | $ 615,331 | $ 522,074 |
| Grants and contributions receivable | 141,358 | 71,501 |
| Accounts receivable | - | 15,761 |
| Prepaid expenses | 91,289 | 50,401 |
| Total Current Assets | 847,978 | 659,737 |
| Investments | 2,767,422 | 1,936,988 |
| Deposits | 36,751 | 81,708 |
| Beneficial interest in split interest agreement | 36,267 | - |
| Property and equipment, net | 674,127 | 776,271 |
| TOTAL ASSETS | $ 4,362,545 | $ 3,454,704 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | $ 177,945 | $ 97,196 |
| Deposits held | - | 9,302 |
| Deferred rent and lease incentive, current portion | 25,806 | 50,235 |
| Total Current Liabilities | 203,751 | 156,733 |
| Deferred rent and lease incentive, net of current portion | 919,229 | 945,035 |
| TOTAL LIABILITIES | 1,122,980 | 1,101,768 |
| Commitments and risks | | |
| NET ASSETS | | |
| Unrestricted net assets | 2,930,147 | 2,302,776 |
| Temporarily restricted net assets | 309,418 | 50,160 |
| Total Net Assets | 3,239,565 | 2,352,936 |
| TOTAL LIABILITIES AND NET ASSETS | $ 4,362,545 | $ 3,454,704 |

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

**TAX FOUNDATION**
**STATEMENT OF ACTIVITIES**
**For the Year Ended December 31, 2017**
**(With Summarized Comparative Information for the Year Ended December 31, 2016)**

| | Unrestricted | Temporarily Restricted | 2017 Total | 2016 Total |
|---|---|---|---|---|
| SUPPORT AND REVENUE | | | | |
| Grants and contributions | $ 3,000,032 | $ 1,468,240 | $ 4,468,272 | $ 3,857,114 |
| Annual dinner, net | 529,385 | - | 529,385 | 361,131 |
| Investment income | 483,567 | - | 483,567 | 158,311 |
| Sublease and other income | 22,819 | - | 22,819 | 115,152 |
| Net assets released from restrictions | 1,208,982 | (1,208,982) | - | - |
| Total Support and Revenue | 5,244,785 | 259,258 | 5,504,043 | 4,491,708 |
| EXPENSES | | | | |
| Program Services | | | | |
| Research and communications | 3,082,133 | - | 3,082,133 | 2,861,125 |
| Total Program Services | 3,082,133 | - | 3,082,133 | 2,861,125 |
| Supporting Services | | | | |
| General and administrative | 341,963 | - | 341,963 | 349,585 |
| Fundraising | 1,193,318 | - | 1,193,318 | 1,022,504 |
| Total Supporting Services | 1,535,281 | - | 1,535,281 | 1,372,089 |
| Total Expenses | 4,617,414 | - | 4,617,414 | 4,233,214 |
| Change in Net Assets | 627,371 | 259,258 | 886,629 | 258,494 |
| Net Assets, Beginning of Year | 2,302,776 | 50,160 | 2,352,936 | 2,094,442 |
| Net Assets, End of Year | $ 2,930,147 | $ 309,418 | $ 3,239,565 | $ 2,352,936 |

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

**TAX FOUNDATION**
**STATEMENTS OF CASH FLOWS**
**For the Year Ended December 31, 2017**
**Increase (Decrease) in Cash**
**(With Summarized Comparative Information for the Year Ended December 31, 2016)**

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 886,629 | $ 258,494 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation expense | 134,938 | 124,304 |
| Net realized and unrealized gains | (428,438) | (118,685) |
| Amortization of loss on sublease agreement | - | (40,119) |
| Beneficial interest in split interest agreement | (36,267) | - |
| Other changes | (9,302) | (4,370) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in grants and contributions receivable | (69,857) | 111,499 |
| (Increase) decrease in accounts receivable | 15,761 | (12,961) |
| (Increase) decrease in prepaid expenses and deposits | 4,069 | 78,624 |
| Increase (decrease) in accounts payable and accrued expenses | 80,749 | (18,749) |
| Increase (decrease) in deferred rent and lease incentive | (50,235) | (51,920) |
| NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES | 528,047 | 326,117 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (32,794) | (77,730) |
| Purchase of Investments | (401,996) | (355,329) |
| Sales of investments | - | 16,646 |
| NET CASH FLOW USED IN INVESTING ACTIVITIES | (434,790) | (416,413) |
| NET INCREASE (DECREASE) IN CASH | 93,257 | (90,296) |
| CASH, BEGINNING OF YEAR | 522,074 | 612,370 |
| CASH, END OF YEAR | $ 615,331 | $ 522,074 |

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.

**Property and Equipment and Related Depreciation**

Property 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. Leasehold improvements are amortized over the shorter of their useful life or the remaining lease term. The Foundation capitalizes purchases of Property 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.

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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, 2017 and 2016, 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.

Revenue from the Annual Dinner is recognized when earned and is reported in the accompanying statements of activities net of direct benefits to donors of $248,615 and $177,870 for the years ended December 31, 2017 and 2016, respectively.

**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, 2017 and 2016, grants and contributions receivable is comprised of amounts due from donors in the amount of $141,358 and $71,501, respectively. At December 31, 2017 and 2016, grants and contributions receivable includes $92,840 and $25,000, respectively, that is restricted by the donor for specific projects. At December 31, 2017 and 2016, all amounts were due within one year and considered fully collectible.

3. Property and Equipment

Property and equipment and the related accumulated depreciation as of December 31, 2017 and 2016, were as follows:

| | 2017 | 2016 |
|---|---|---|
| Leasehold Improvements | $ 645,581 | $ 645,581 |
| Furniture and equipment | 366,545 | 333,751 |
| Website and software | 74,914 | 105,414 |
| Total Property and Equipment | 1,087,040 | 1,084,746 |
| Less: accumulated depreciation and amortization | (412,913) | (308,475) |
| Property and equipment, net | $ 674,127 | $ 776,271 |

4. Investments

At December 31, 2017 and 2016, investments were comprised of the following:

| | 2017 | 2016 |
|---|---|---|
| Mutual funds - equity and index funds | $ 2,767,422 | $ 1,936,988 |

Investment income for the years ended December 31, 2017 and 2016, was comprised of the following:

| | 2017 | 2016 |
|---|---|---|
| Interest and dividends | $ 55,129 | $ 39,626 |
| Net realized and unrealized gains | 428,438 | 118,685 |
| Total | $ 483,567 | $ 158,311 |

5. Beneficial Interest in Split Interest Agreement

During the year ended December 31, 2017, the Foundation was notified that it has a beneficial remainder interest in an irrevocable gift annuity held by a third party. The terms of the agreement provide for quarterly payments of $1,500 to the primary beneficiary during thier lifetime with the amount remaining to be paid to the Foundation upon the beneficiaries death. The Foundation has recorded the beneficial interest in this contribution at its estimated fair value using present value techniques assuming a remaining life expectancy of 12.1 years and a discount rate of 7.5%. For the year ended December 31, 2017, the Foundation recorded a contribution of $36,267, related to this split interest agreement, which is included in grants and contributions in the accompanying statement of activities.

6. Temporarily Restricted Net Assets

At December 31, 2017 and 2016, temporarily restricted net assets were available for the following programs and time periods:

| | 2017 | 2016 |
|---|---|---|
| State Chartbooks | $ 205,043 | $ 49,854 |
| State Tax Business Climate Index | 54,070 | - |
| Time restricted to 2018 | 50,000 | - |
| Other | 305 | 306 |
| Total | $ 309,418 | $ 50,160 |

In addition, $48,127 restricted by donors for use in specific program services of the Foundation was also time restricted for use in 2018.

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, 2017 and 2016 was $79,964 and $62,209, respectively.

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8. 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, 2017 and 2016, 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, 2017 and 2016, 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, 2016, 2015, and 2014 remain open with Federal taxing authorities. The Foundation has no state income tax filing requirements currently in any jurisdiction.

9. Lease Commitment

The Foundation leases its office space under a 12 year operating lease agreement. 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 provided for 13 months of rent abatement and a tenant improvement allowance of $85 per square foot or $681,530.

The Foundation also leased office space under an operating lease agreement entered into in 2009. The terms of the this lease required 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. In December 2014, the Foundation entered into a sublease agreement to sublease this office space through the end of the lease term. The lease expired in June 2016. Future minimum lease payments under the leases are as follows:

| Years Ending December 31, | |
|---|---|
| 2018 | $ 379,918 |
| 2019 | 424,818 |
| 2020 | 440,854 |
| 2021 | 451,875 |
| 2022 | 463,172 |
| 2023 and thereafter | 1,971,413 |
| Total | $ 4,132,050 |

Total occupancy expense recorded by the Foundation for the years ended December 31, 2017 and 2016, was $376,400 and $409,738, respectively.

10. 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, 2017:

| | Level 1 | Level 2 |
|---|---|---|
| Mutual Funds | $ 2,767,422 | $ - |
| Beneficial interest in split interest agreement | - | 36,267 |
| Total | $ 2,767,422 | $ 36,267 |

The fair value of the beneficial interest in the split interest agreement was estimated using present value techniques based on a life expectancy of 12.1 years for the primary beneficiary and a discount rate of 7.5% per annum.

At December 31, 2016:

| | Level 1 |
|---|---|
| Mutual funds | $ 1,936,988 |

As of and for the years ended December 31, 2017 and 2016, 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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11. Concentration of Credit Risk

At December 31, 2017, the amount held in the Foundation's operating account exceeded the amount guaranteed by the Federal Deposit Insurance Corporation by $374,687. In addition, at December 31, 2017, grants and contributions receivable of $141,358 included amounts due from three donors totaling $102,213 or 72% of the balance. The Foundation has not experienced, nor does it anticipate, any loss of funds as a result of this concentration.

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, 2016, from which the summarized information was prepared.

13. Subsequent Event

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 21, 2018, the date the financial statements were available to be issue

14. Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 financial statement presentation.