

TAX FOUNDATION

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2019 AND 2018

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities, Year Ended December 31, 2019	4
Statement of Activities, Year Ended December 31, 2018	5
Statement of Functional Expenses, Year Ended December 31, 2019	6
Statement of Functional Expenses, Year Ended December 31, 2018	7
Statements of Cash Flows	8
Notes to the Financial Statements	9 - 17



Independent Auditor's Report

To the Board of Directors
Tax Foundation
Washington, DC

We have audited the accompanying financial statements of Tax Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the 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 audits. We conducted our audits 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 from 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.

Tax Foundation
Independent Auditor's Report
Page Two

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 Tax Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note B to the financial statements, in 2019 Tax Foundation adopted new accounting guidance, Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* and ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Jane Harrison & McQuade PA

Washington, DC
May 4, 2020

TAX FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 514,154	\$ 621,579
Investments	2,563,902	2,553,988
Grants and contributions receivable	214,198	304,871
Prepaid expenses	87,684	79,449
Total Current Assets	3,379,938	3,559,887
PROPERTY AND EQUIPMENT		
Furniture and equipment	481,211	505,475
Leasehold improvements	645,581	645,581
Less accumulated depreciation	(644,810)	(535,336)
Total Property and Equipment, Net	481,982	615,720
OTHER ASSETS		
Beneficial interest in split interest agreement	42,247	39,257
Deposits	36,751	36,751
Total Other Asset	78,998	76,008
TOTAL ASSETS	\$ 3,940,918	\$ 4,251,615
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 83,090	\$ 76,162
Accrued expenses	112,212	80,207
Capital lease liability, current portion	3,342	3,342
Deferred rent and lease incentive, current portion	86,741	70,705
Total Current Liabilities	285,385	230,416
NON-CURRENT LIABILITIES		
Capital lease liability, net of current portion	6,501	10,353
Deferred rent and lease incentive, net of current portion	761,783	848,524
Total Liabilities	1,053,669	1,089,293
NET ASSETS		
Without donor restrictions	2,546,078	2,963,313
With donor restrictions	341,171	199,009
Total Net Assets	2,887,249	3,162,322
TOTAL LIABILITIES AND NET ASSETS	\$ 3,940,918	\$ 4,251,615

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

**TAX FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Grants and contributions	\$ 3,432,574	\$ 1,015,000	\$ 4,447,574
Fundraising event			
Annual dinner	794,639	-	794,639
Less: direct costs	(373,064)	-	(373,064)
Net Revenue From Fundraising Event	421,575	-	421,575
Investment income, net	611,751	-	611,751
Honoraria and reimbursements	19,334	-	19,334
In-kind contributions	35,382	-	35,382
Net assets released from restrictions	872,838	(872,838)	-
Total Revenue and Support	5,393,454	142,162	5,535,616
EXPENSES			
Program Services:			
Federal tax policy	1,531,342	-	1,531,342
State tax policy	1,069,027	-	1,069,027
Research and communication	648,327	-	648,327
Global tax reform	548,061	-	548,061
Legal programs	202,548	-	202,548
Total Program Services	3,999,305	-	3,999,305
Support Services:			
Fundraising	1,193,010	-	1,193,010
General and administration	618,374	-	618,374
Total Support Services	1,811,384	-	1,811,384
Total Expenses	5,810,689	-	5,810,689
CHANGE IN NET ASSETS	(417,235)	142,162	(275,073)
NET ASSETS, beginning of year	2,963,313	199,009	3,162,322
NET ASSETS, end of year	\$ 2,546,078	\$ 341,171	\$ 2,887,249

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

**TAX FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
REVENUE AND SUPPORT			
Grants and contributions	\$ 3,574,695	\$ 1,106,000	\$ 4,680,695
Fundraising event			
Annual dinner	868,510	-	868,510
Less: direct costs	<u>(336,090)</u>	<u>-</u>	<u>(336,090)</u>
Net Revenue From Fundraising Event	532,420	-	532,420
Investment loss, net	(228,169)	-	(228,169)
Honoraria and reimbursements	29,068	-	29,068
In-kind contributions	9,382	-	9,382
Net assets released from restrictions	<u>1,216,409</u>	<u>(1,216,409)</u>	<u>-</u>
Total Revenue and Support	5,133,805	(110,409)	5,023,396
Program Services			
Federal tax policy	1,382,004	-	1,382,004
State tax policy	1,016,779	-	1,016,779
Research and communication	446,465	-	446,465
Global tax reform	369,058	-	369,058
Legal programs	<u>185,502</u>	<u>-</u>	<u>185,502</u>
Total Program Services	3,399,808	-	3,399,808
Support Services:			
Fundraising	1,047,225	-	1,047,225
General and administration	<u>653,606</u>	<u>-</u>	<u>653,606</u>
Total Support Services	1,700,831	-	1,700,831
Total Expenses	<u>5,100,639</u>	<u>-</u>	<u>5,100,639</u>
CHANGE IN NET ASSETS	33,166	(110,409)	(77,243)
NET ASSETS, beginning of year	<u>2,930,147</u>	<u>309,418</u>	<u>3,239,565</u>
NET ASSETS, end of year	<u><u>\$ 2,963,313</u></u>	<u><u>\$ 199,009</u></u>	<u><u>\$ 3,162,322</u></u>

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

**TAX FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019**

	Program Services					Support Services			TOTAL	
	Federal Tax Policy	State Tax Policy	Research and Communication	Global Tax Reform	Legal Programs	Total Programs	General and Administration	Fundraising		Total Support Services
Salaries	\$ 952,710	\$ 634,736	\$ 435,713	\$ 271,802	\$ 144,809	\$ 2,439,770	\$ 340,806	\$ 500,336	\$ 841,142	\$ 3,280,912
Payroll taxes	68,785	45,827	31,458	19,624	10,455	176,149	24,605	36,124	60,729	236,878
Employee benefits	53,208	35,449	24,334	15,180	8,087	136,258	19,035	27,943	46,978	183,236
Retirement benefits	28,839	19,214	13,189	8,228	4,383	73,853	10,317	15,145	25,462	99,315
Sub-Totals	<u>1,103,542</u>	<u>735,226</u>	<u>504,694</u>	<u>314,834</u>	<u>167,734</u>	<u>2,826,030</u>	<u>394,763</u>	<u>579,548</u>	<u>974,311</u>	<u>3,800,341</u>
Accounting	-	-	-	-	-	-	106,471	-	106,471	106,471
Advertising	-	-	24,756	-	-	24,756	1,330	-	1,330	26,086
Bank and credit card fees	-	-	-	-	-	-	2,923	3,428	6,351	6,351
Conference and meetings	17,263	25,972	378	61,520	-	105,133	15,546	463	16,009	121,142
Contributions	-	-	-	19,808	-	19,808	-	-	-	19,808
Depreciation and amortization	40,030	26,670	18,307	11,420	6,084	102,511	14,320	21,023	35,343	137,854
Direct mail expenses	-	-	-	-	-	-	-	327,081	327,081	327,081
Dues and subscription	10,333	45,609	10,957	15,208	2,920	85,027	4,821	13,691	18,512	103,539
Equipment rental and maintenance	2,276	1,516	1,041	649	346	5,828	815	1,195	2,010	7,838
Insurance	5,955	3,967	2,723	1,699	905	15,249	2,130	3,127	5,257	20,506
IT Support	12,414	8,271	5,677	3,542	1,887	31,791	4,440	6,818	11,258	43,049
Occupancy	107,220	71,435	49,036	30,589	16,297	274,577	38,355	56,309	94,664	369,241
Office supplies	5,120	3,411	2,342	1,461	778	13,112	1,831	1,885	3,716	16,828
Other	898	1,682	1,154	720	384	4,838	904	1,326	2,230	7,068
Printing and reproduction	-	26,178	7,451	1,541	965	36,135	8,001	2,540	10,541	46,676
Professional fees	203,256	7,592	5,212	7,026	1,732	224,818	13,493	128,227	141,720	366,538
Staff development	4,301	9,224	4,811	1,205	642	20,183	1,510	9,717	11,227	31,410
Telecommunications	9,014	5,232	3,592	2,240	1,194	21,272	2,809	4,124	6,933	28,205
Travel	9,720	97,042	6,196	74,599	680	188,237	3,912	32,508	36,420	224,657
Total Expenses	<u>\$ 1,531,342</u>	<u>\$ 1,069,027</u>	<u>\$ 648,327</u>	<u>\$ 548,061</u>	<u>\$ 202,548</u>	<u>\$ 3,999,305</u>	<u>\$ 618,374</u>	<u>\$ 1,193,010</u>	<u>\$ 1,811,384</u>	<u>\$ 5,810,689</u>

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

**TAX FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	Program Services					Support Services			TOTAL	
	Federal Tax Policy	State Tax Policy	Research and Communication	Global Tax Reform	Legal Programs	Total Programs	General and Administration	Fundraising		Total Support Services
Salaries	\$ 817,855	\$ 507,428	\$ 253,744	\$ 197,305	\$ 103,828	\$ 1,880,160	\$ 404,426	\$ 434,963	\$ 839,389	\$ 2,719,549
Payroll taxes	53,718	34,533	19,185	13,430	7,674	128,540	32,615	30,696	63,311	191,851
Employee benefits	48,807	31,376	17,431	12,202	6,972	116,788	29,634	27,890	57,524	174,312
Retirement benefits	19,130	12,298	6,832	4,782	2,733	45,775	11,614	10,931	22,545	68,320
Sub-Totals	939,510	585,635	297,192	227,719	121,207	2,171,263	478,289	504,480	982,769	3,154,032
Accounting	-	-	-	-	-	-	15,537	-	15,537	15,537
Advertising	624	500	26,134	-	-	27,258	98	4,793	4,891	32,149
Bad Debt	-	-	-	-	-	-	14,776	-	14,776	14,776
Bank and credit card fees	-	-	-	-	-	-	6,845	-	6,845	6,845
Conference and meetings	23,825	17,134	8,732	26,685	206	76,582	5,649	-	5,649	82,231
Contributions	-	-	-	35,439	-	35,439	-	-	-	35,439
Depreciation and amortization	34,278	22,036	12,242	8,570	4,897	82,023	20,812	19,588	40,400	122,423
Dues and subscription	36,264	20,028	23,040	8,769	18,303	106,404	-	17,215	17,215	123,619
Insurance	7,216	4,639	2,577	1,804	1,031	17,267	4,381	4,123	8,504	25,771
IT Support	5,681	3,515	10,886	1,902	781	22,765	3,319	4,490	7,809	30,574
Occupancy	101,350	65,154	36,196	25,337	14,479	242,516	61,534	57,914	119,448	361,964
Office supplies	6,538	4,991	2,494	1,635	934	16,592	3,970	11,752	15,722	32,314
Other	7,699	4,949	2,750	1,925	1,100	18,423	4,674	6,244	10,918	29,341
Printing and reproduction	-	25,779	3,954	-	1,780	31,513	15,080	63,073	78,153	109,666
Professional fees	174,691	146,995	36	6,750	150	328,622	-	117,726	117,726	446,348
Postage	-	1,460	399	2,776	72	4,707	6,284	192,129	198,413	203,120
Repairs and maintenance	3,749	2,171	1,556	844	482	8,802	2,050	1,929	3,979	12,781
Staff development	9,082	5,985	6,185	2,030	1,160	24,442	4,931	5,863	10,794	35,236
Telecommunications	6,526	4,195	2,978	1,631	932	16,262	3,963	3,729	7,692	23,954
Travel	24,971	101,613	9,114	15,242	17,988	168,928	1,414	32,177	33,591	202,519
Total Expenses	<u>\$ 1,382,004</u>	<u>\$ 1,016,779</u>	<u>\$ 446,465</u>	<u>\$ 369,058</u>	<u>\$ 185,502</u>	<u>\$ 3,399,808</u>	<u>\$ 653,606</u>	<u>\$ 1,047,225</u>	<u>\$ 1,700,831</u>	<u>\$ 5,100,639</u>

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

**TAX FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (275,073)	\$ (77,243)
Adjustments to reconcile changes in net assets to net cash provided for operating activities:		
Depreciation	137,854	122,423
Net investment (income) loss	(549,532)	291,425
Beneficial interest in split interest agreement	(2,990)	(2,990)
Donated Stock	8,036	-
(Increase) decrease in assets:		
Grants and contributions receivable	90,673	(163,513)
Prepaid expenses	(8,235)	11,840
Increase (decrease) in liabilities:		
Accounts payable	6,928	(9,707)
Accrued expenses	32,005	(11,869)
Capital lease liability	(3,852)	13,695
Deferred rent and lease incentive	(70,705)	(25,806)
Net Cash (Used For) Provided By Operating Activities	(634,891)	148,255
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(4,116)	(64,016)
Purchase of investments	(1,159,266)	(77,991)
Sale of investments	1,690,848	-
Net Cash Provided by (Used For) Investing Activities	527,466	(142,007)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(107,425)	6,248
CASH AND CASH EQUIVALENTS, beginning of year	621,579	615,331
CASH AND CASH EQUIVALENTS, end of year	\$ 514,154	\$ 621,579

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

**TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE A – ORGANIZATION AND NATURE OF ACTIVITIES

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.

Program Descriptions

Federal Tax Policy Programs promotes sound tax policy in Washington D.C. The Foundation provides objective data and analysis on tax policy, using several tools, including dynamic scoring model, research and writing, Capitol Hill Briefings, and Congressional Testimony. The Foundation established itself as the go-to resource on federal tax issues for policymakers. In 2019, the staff conducted more than 80 Capitol Hill Meetings and briefings, and produced dozens on reports and blog posts on a variety of issues that received nearly 4,000 citations in leading media outlets.

State Tax Policy Programs promotes state tax reform with comprehensive annual reports, research, policy analysis, and in-depth state-specific studies. In 2019, the Foundation testified or presented to officials in 28 states and the District of Columbia. The Foundation is often looked to by legislators, taxpayers, and the media to recommend tax reform options or provide analysis of tax plans. The Foundation’s analysis, and studies such as the State Business Tax Climate Index, inform the tax reform debate across the country and have been crucial to major tax changes in many states. In 2019, the State Business Tax Climate Index was downloaded and viewed nearly 200,000 times.

Research and Communication -The Foundation’s marketing team makes tax policy engaging and accessible to taxpayers, legislators, and the media through innovative, multi-channel campaigns. The Foundation’s team delivers high-quality content to the right people, at the right time, in a format that promotes deeper understanding using tools like social media, digital advertising, interactive web experiences, and email. In 2019, the Foundation earned 18,494 media citations in the world's top news outlets, including The Wall Street Journal, the Washington Post, the New York Times, NBC, Fox News, and NPR; its experts were mentioned on TV and radio 2,091 times; taxfoundation.org was visited 16.4 million times; its social media accounts earned 19 million impressions; its digital advertising resulted in 5.8 million impressions; and its reports were downloaded 538,637 times.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE A – ORGANIZATION AND NATURE OF ACTIVITIES (continued)

Program Descriptions (continued)

Global Tax Reform Program was launched in 2018 in order to promote pro-growth tax policies throughout the world with a primary focus on Europe. The Global Program produces in-depth studies of economic data and uses a variety of measures, such as the International Tax Competitiveness Index, to compare tax systems. The Foundation's experts have provided briefings in countries throughout Europe and are relied upon by media, policy makers, and other policy groups to provide analysis of tax proposals throughout the world. The Tax Foundation's work was cited in 93 countries.

Legal Program cultivates, explains, and advocates for tax legal reform. We develop innovative pro-growth ideas in tax law with leading experts, educate the legal community and the public about economics and taxpayer protections, and advocate that judicial and policy decisions on tax law promote simple, neutral, transparent, and stable tax policies.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These financial statements were prepared using the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Adoption of New Accounting Pronouncement

The Financial Accounting Standards Board ("FASB") *Accounting Standards Codification Topic 606, Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

In June 2018, FASB issued *ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Foundation has implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Statement Presentation

Financial statement presentation follows Financial Standards Accounting Board (“FASB”) Accounting Standards Codification (“ASC”) Topic *Not-for-Profit-Entities*. In accordance with the topic, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets not subject to donor-imposed restrictions or stipulations.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the Foundation and/or the passage of time, or that must be maintained permanently by the Foundation. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. Contributions received with donor restrictions that are met in the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers money market accounts and all highly liquid investments with original maturities of less than three months to be cash equivalents. The Foundation maintains its cash balances in bank deposit accounts which are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, the accounts may exceed these limits. The Foundation believes it is not exposed to any significant credit risk on cash or cash equivalents.

Investments

Investments in mutual funds are reported at fair value, which is based on observable quoted market prices. Money market funds are reported at cost, which approximates fair value. Interest income is reported when earned. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) in fair value of investments includes the gains and losses on investments bought and sold as well as held during the year.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and Contributions

Grants and contributions receivable are stated at the amount management expects to collect from balances outstanding at year end. Annually, management determines if an allowance for doubtful accounts is necessary based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Accounts deemed uncollectible are charged off based on individual credit evaluation and specific circumstances of the parties involved. Management believes all accounts receivable are collectable within one year or less; therefore, no allowance for uncollectible accounts has been established.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Expenditures over \$2,500 that extend the life of an asset are capitalized while repairs and maintenance are expensed. Depreciation is calculated on a straight-line basis over the estimated useful lives (ranging from three to nine years) of the related assets. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the lease term.

Revenue Recognition

Unconditional contributions received are recorded as assets with or without donor restrictions depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue from the Annual Dinner is recognized when earned and is reported in the accompanying statements of activities net of direct benefits.

Deferred Rent

Deferred rent represents discounted rent granted by the landlord. This is being recognized as rent expense over the remaining period of the lease on a straight-line basis.

Method Used for Allocation of Expenses for Management and General Activities

The financial statements report certain categories of expenses that are attributable to more than one program or a supporting function as management and general activities. Expenses of this nature are allocated on a reasonable basis that is consistently applied. Allocated expenses include depreciation and amortization, office and occupancy expenses, and related personal expenses that are allocated on the basis of time worked.

**TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of 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 of revenue and expenses during the reporting periods and reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE C – INCOME TAXES

The Foundation has been recognized as exempt from federal income tax by the Internal Revenue Service under the provisions of Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation.

The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements or that would have an effect on its tax-exempt status. There are no unrecognized tax benefits or liabilities that need to be recorded.

The Foundation's information returns are subject to examination by the Internal Revenue Service ("IRS") for a period of three years from the date they were filed, except under certain circumstances. The Foundation's Form 990 returns for the years 2016 through 2018 are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

NOTE D – AVAILABLE RESOURCES AND LIQUIDITY

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Foundation has various sources of liquidity at its disposal including cash and cash equivalents, accounts receivable and investments.

For purposes of analyzing resources available to meet general expenditure over a 12-month period, the Foundation considers all expenditures related to its ongoing program activities and services to support those activities to be general expenditures.

**TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE D – AVAILABLE RESOURCES AND LIQUIDITY (continued)

The following table reflects the Foundation’s financial assets as of December 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor restrictions and board designations:

	2019	2018
Cash	\$ 514,154	\$ 621,579
Grants and contributions receivable	214,198	304,871
Investments	2,563,902	2,553,988
Total Financial Assets	3,292,254	3,480,438
Less Net assets with Donor Restrictions	(341,171)	(199,009)
Total Financial Assets Available to Meet Cash		
Needs for General Expenditures within one Year	\$ 2,951,083	\$ 3,281,429

NOTE E – BENEFICIAL INTEREST IN SPLIT INTEREST AGREEMENT

The Foundation 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 \$1,550 to the primary beneficiary during their lifetime with the amount remaining to be paid to the Foundation upon the beneficiary’s 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 11.1 years and a discount rate of 7.51%. For the years ended December 31, 2019 and 2018, the Foundation recorded a contribution of \$42,247 and \$39,257 respectively, related to this split interest agreement, which is included in grants and contributions in the accompanying statement of activities.

NOTE F – LEASE COMMITMENT

The Foundation leases its office space under a twelve-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.

**TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE F – LEASE COMMITMENT (continued)

Years Ending December 31,

2020	\$ 440,854
2021	451,875
2022	463,172
2023	474,752
2024	486,620
2025 and thereafter	<u>1,010,041</u>
	<u><u>\$ 3,327,314</u></u>

Total occupancy expense recorded by the Foundation for the years ended December 31, 2019 and 2018 totaled \$369,241 and \$361,964 respectively.

NOTE G – NET ASSETS WITH DONOR RESTRICTIONS

The Foundation had net assets with donor restrictions for the years ended December 31, 2019 and 2018, as follows:

	2019	2018
Center for State Tax Policy	\$ -	\$ 25,315
State Tax Business Climate Index	-	10,842
Macroeconomic tax modeling	-	138,711
Upgrade to taxes and growth model	115,116	23,836
Time restricted donations	205,000	-
Other	-	305
UK Reform book	21,055	-
	<u>\$ 341,171</u>	<u>\$ 199,009</u>

NOTE H – RETIREMENT PLAN

The Tax Foundation 401(k) profit sharing plan (the “Plan”) was adopted to provide employees with retirement saving opportunities. All employees who are 21 years of age and have completed six months of employment with at least 1,000 hours of service are eligible to participate. Eligible employees may contribute to the Plan up to the maximum limits set by the Internal Revenue Service. The employer matches 100 percent of salary deferrals up to 3% of the compensation and 50% of deferrals between 3% and 5% of compensation. The plan was updated as of January 1, 2019. The employer now matches 100 percent of the salary deferrals up to 5% of the compensation. Retirement expense for the years ended December 31, 2019 and 2018 totaled \$99,315 and \$68,320 respectively.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(continued)

NOTE I – CONCENTRATION OF FUNDING

At December 31, 2019 and 2018, the amount held in the Foundation's operating account exceeded the amount guaranteed by the Federal Deposit Insurance Corporation by \$264,154 and \$371,579 respectively. In addition, at December 31, 2019 and 2018, grants and contributions receivable of \$214,198 and \$304,871 included amounts due from three and six donors respectively, totaling \$140,000 and \$212,500 or 65% and 69% of the balance respectively. The Foundation has not experienced, nor does it anticipate, any loss of funds as a result of this concentration.

NOTE J – 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 as follows:

Assets at Fair Value as of December 31, 2019

	Level 1	Level 2	Total
Mutual Funds	\$ 1,013,803	\$ -	\$ 1,013,803
Stocks	1,550,099	-	1,550,099
Total	\$ 2,563,902	\$ -	\$ 2,563,902

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(continued)

NOTE J – FAIR VALUE MEASUREMENTS (continued)

Assets at Fair Value as of December 31, 2018

	Level 1	Level 2	Total
Mutual Funds	\$ 2,534,876	\$ -	\$ 2,534,876
Stocks	19,112	-	19,112
Total	<u>\$ 2,553,988</u>	<u>\$ -</u>	<u>\$ 2,553,988</u>

NOTE K – SUBSEQUENT EVENTS

The Foundation's management has evaluated subsequent events for potential required disclosures through May 4, 2020, which is the date the financial statements are available to be issued. There were no additional events or transactions except as noted above that were discovered during the evaluation that required further recognition or disclosure.