

TAX FOUNDATION

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

DECEMBER 31, 2020 AND 2019

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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, 2020 and 2019, 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 audits 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Tax Foundation
Independent Auditor's Report
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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, 2020 and 2019, 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.

Jane Marusa & McQuade PA

Washington, DC
May 6, 2021

TAX FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	2020	2019
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,560,626	\$ 514,154
Investments	2,919,493	2,563,902
Grants and contributions receivable	37,372	214,198
Prepaid expenses	127,657	87,684
Total Current Assets	4,645,148	3,379,938
PROPERTY AND EQUIPMENT		
Furniture and equipment	493,138	481,211
Leasehold improvements	645,581	645,581
Sub-total Property and Equipment	1,138,719	1,126,792
Less accumulated depreciation	(750,219)	(644,810)
Total Property and Equipment, Net	388,500	481,982
OTHER ASSETS		
Beneficial interest in split interest agreement	45,996	42,247
Deposits	36,751	36,751
Total Other Asset	82,747	78,998
TOTAL ASSETS	\$ 5,116,395	\$ 3,940,918
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 17,188	\$ 83,090
Accrued expenses	248,808	112,212
Capital lease liability, current portion	3,342	3,342
Deferred rent and lease incentive, current portion	97,763	86,741
Total Current Liabilities	367,101	285,385
NON-CURRENT LIABILITIES		
Capital lease liability, net of current portion	4,171	6,501
Deferred rent and lease incentive, net of current portion	664,020	761,783
Total Non-Current Liabilities	668,191	768,284
Total Liabilities	1,035,292	1,053,669
NET ASSETS		
Without donor restrictions	3,328,619	2,546,078
With donor restrictions	752,484	341,171
Total Net Assets	4,081,103	2,887,249
TOTAL LIABILITIES AND NET ASSETS	\$ 5,116,395	\$ 3,940,918

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

TAX FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Grants and contributions	\$ 3,474,410	\$ 1,841,000	\$ 5,315,410
Fundraising event			
Annual dinner	298,000	-	298,000
Less: direct costs	<u>(43,696)</u>	<u>-</u>	<u>(43,696)</u>
Net Revenue From Fundraising Event	254,304	-	254,304
Investment income, net	369,611	-	369,611
Honoraria and reimbursements	2,490	-	2,490
Net assets released from restrictions	<u>1,429,687</u>	<u>(1,429,687)</u>	<u>-</u>
Total Revenue and Support	5,530,502	411,313	5,941,815
 EXPENSES			
Program Services:			
Federal tax policy	1,305,296	-	1,305,296
State tax policy	706,371	-	706,371
Research and communication	1,049,296	-	1,049,296
Global tax reform	<u>399,389</u>	<u>-</u>	<u>399,389</u>
Total Program Services	3,460,352	-	3,460,352
Support Services:			
General and administration	601,854	-	601,854
Fundraising	<u>685,755</u>	<u>-</u>	<u>685,755</u>
Total Support Services	1,287,609	-	1,287,609
Total Expenses	<u>4,747,961</u>	<u>-</u>	<u>4,747,961</u>
 CHANGE IN NET ASSETS	 782,541	 411,313	 1,193,854
 NET ASSETS, beginning of year	 <u>2,546,078</u>	 <u>341,171</u>	 <u>2,887,249</u>
 NET ASSETS, end of year	 <u><u>\$ 3,328,619</u></u>	 <u><u>\$ 752,484</u></u>	 <u><u>\$ 4,081,103</u></u>

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	<u>(373,064)</u>	<u>-</u>	<u>(373,064)</u>
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	<u>872,838</u>	<u>(872,838)</u>	<u>-</u>
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	<u>202,548</u>	<u>-</u>	<u>202,548</u>
Total Program Services	3,999,305	-	3,999,305
Support Services:			
General and administration	618,374	-	618,374
Fundraising	<u>1,193,010</u>	<u>-</u>	<u>1,193,010</u>
Total Support Services	1,811,384	-	1,811,384
Total Expenses	<u>5,810,689</u>	<u>-</u>	<u>5,810,689</u>
 CHANGE IN NET ASSETS	(417,235)	142,162	(275,073)
 NET ASSETS, beginning of year	<u>2,963,313</u>	<u>199,009</u>	<u>3,162,322</u>
 NET ASSETS, end of year	<u><u>\$ 2,546,078</u></u>	<u><u>\$ 341,171</u></u>	<u><u>\$ 2,887,249</u></u>

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

TAX FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Program Services				Support Services			TOTAL	
	Federal Tax Policy	State Tax Policy	Research and Communication	Global Tax Reform	Total Programs	General and Administration	Fundraising		Total Support Services
Salaries	\$ 847,095	\$ 434,463	\$ 607,054	\$ 232,486	\$ 2,121,098	\$ 161,749	\$ 407,923	\$ 569,672	\$ 2,690,770
Payroll taxes	63,501	32,569	45,470	17,411	158,951	11,182	30,580	41,762	200,713
Employee benefits	51,245	26,448	38,020	14,877	130,590	9,918	24,796	34,714	165,304
Retirement benefits	30,872	15,834	22,107	8,465	77,278	5,436	14,867	20,303	97,581
Sub-totals	992,713	509,314	712,651	273,239	2,487,917	188,285	478,166	666,451	3,154,368
Accounting	-	-	-	-	-	108,727	-	108,727	108,727
Advertising	-	-	19,687	-	19,687	3,502	-	3,502	23,189
Bank and credit card fees	-	-	-	-	-	7,135	-	7,135	7,135
Conference and meetings	-	-	-	-	-	8,551	-	8,551	8,551
Contributions	-	-	-	9,930	9,930	10,099	-	10,099	20,029
Depreciation and amortization	32,677	16,865	24,244	9,487	83,273	6,324	15,811	22,135	105,408
Direct mail expenses	-	-	140,894	124	141,018	137,319	58,315	195,634	336,652
Dues and subscription	1,415	27,904	22,341	17,562	69,222	649	14,693	15,342	84,564
Equipment rental and maintenance	4,506	2,310	3,228	1,236	11,280	860	2,169	3,029	14,309
Insurance	6,848	3,512	4,908	1,879	17,147	1,308	3,298	4,606	21,753
IT Support	926	-	13,350	-	14,276	21,562	1,496	23,058	37,334
Occupancy	115,690	59,335	82,906	31,751	289,682	22,090	55,712	77,802	367,484
Office supplies	4,440	2,277	3,182	1,219	11,118	848	2,139	2,987	14,105
Other	-	-	188	9,711	9,899	7,389	-	7,389	17,288
Printing and reproduction	-	494	14,528	-	15,022	312	1,344	1,656	16,678
Professional fees	133,999	75,000	-	37,408	246,407	68,104	40,000	108,104	354,511
Staff development	386	-	499	400	1,285	6,106	-	6,106	7,391
Telecommunications	8,111	4,160	5,813	2,226	20,310	1,549	3,906	5,455	25,765
Travel	3,585	5,200	877	3,217	12,879	1,135	8,706	9,841	22,720
Total Expenses	<u>\$ 1,305,296</u>	<u>\$ 706,371</u>	<u>\$ 1,049,296</u>	<u>\$ 399,389</u>	<u>\$ 3,460,352</u>	<u>\$ 601,854</u>	<u>\$ 685,755</u>	<u>\$ 1,287,609</u>	<u>\$ 4,747,961</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
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,193,854	\$ (275,073)
Adjustments to reconcile changes in net assets to net cash provided for operating activities:		
Depreciation	105,408	137,854
Net investment income	(332,932)	(549,532)
Beneficial interest in split interest agreement	(3,749)	(2,990)
Donated Stock	-	8,036
(Increase) decrease in assets:		
Grants and contributions receivable	176,826	90,673
Prepaid expenses	(39,973)	(8,235)
Increase (decrease) in liabilities:		
Accounts payable	(65,902)	6,928
Accrued expenses	136,596	32,005
Capital lease liability	(2,330)	(3,852)
Deferred rent and lease incentive	(86,741)	(70,705)
Net Cash Provided By (Used For) Operating Activities	1,081,057	(634,891)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(11,927)	(4,116)
Purchase of investments	(52,657)	(1,159,266)
Sale of investments	29,999	1,690,848
Net Cash (Used For) Provided by Investing Activities	(34,585)	527,466
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,046,472	(107,425)
CASH AND CASH EQUIVALENTS, beginning of year	514,154	621,579
CASH AND CASH EQUIVALENTS, end of year	\$ 1,560,626	\$ 514,154

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

**TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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 modeling of economic and budgetary effects, 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 2020, despite in-person limitations, the staff conducted more than 45 Capitol Hill Meetings and briefings and produced dozens on reports and blog posts on a variety of issues that received 9,060 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 2020, the Foundation testified or presented to officials-mostly virtually-in 35 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, and Foundation experts were a vital resource to policymakers and journalists as states navigated tax policy during the pandemic.

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 2020, the Foundation earned 20,370 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 conducted 104 radio and TV interviews; taxfoundation.org was visited 26.7 million times, leading to 486,852 report downloads; its social media accounts earned 27 million impressions; its digital advertising resulted in 12.8 million impressions; and its email newsletter grew to 47,508 subscribers.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(Continued)

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 received 3,730 international media citations.

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. This program ended as of December 31, 2019.

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.

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.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Statement Presentation (continued)

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.

Grants and Contributions Receivable

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.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

NOTE B – SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Foundation recognizes grants and contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Contributions received with donor stipulations are recorded as contributions with donor restrictions based on the donor's intent. Unless otherwise stated by the donor, individual donations are recorded as contributions without donor restrictions. Contributions with donor restrictions that are met in the same reporting period as the contribution is received are reported as contributions without donor restrictions support.

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

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.

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.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

NOTE C – INCOME TAXES (continued)

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 2017 through 2019 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, grants and contributions 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.

The following table reflects the Foundation’s financial assets as of December 31, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Cash	\$ 1,560,626	\$ 514,154
Investments	2,919,493	2,563,902
Grants and contributions receivable	<u>37,372</u>	<u>214,198</u>
Total Financial Assets	4,517,491	3,292,254
Less Net assets with Donor Restrictions	<u>(752,484)</u>	<u>(341,171)</u>
Total Financial Assets Available to Meet Cash Needs for General Expenditures within one Year	<u>\$ 3,765,007</u>	<u>\$ 2,951,083</u>

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(continued)

NOTE E – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value, as defined in the fair value measurement accounting guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price.

The guidance on fair value measurement accounting requires that the Foundation make assumptions market participants would use in pricing an asset or liability based on the best information available. The Foundation considers factors that were not previously measured when determining the fair value of financial instruments. These factors include nonperformance risk (the risk that the obligation will not be fulfilled) and credit risk, of the reporting entity (for liabilities) and of the counterparty (for assets). The fair value measurement guidance prohibits inclusion of transaction costs and any adjustments for blockage factors in determining the instruments' fair value. The principal or most advantageous market should be considered from the perspective of the reporting entity.

Fair value, where available, is based on observable quoted market prices. Where observable prices or inputs are not available, several valuation models and techniques are applied. These models and techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The process involves varying levels of management judgement, the degree of which is dependent on the price transparency of the instruments or market and the instruments' complexity.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where Level 1 is the highest and Level 3 is the lowest.

The three levels of the fair value hierarchy are described as follows:

- | | |
|----------------|---|
| <i>Level 1</i> | Observable inputs such as quoted market prices in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. |
| <i>Level 2</i> | Inputs other than quoted process in active markets that are either directly or indirectly observable. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data. |

TAX FOUNDATION
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(continued)

NOTE E – INVESTMENTS AND FAIR VALUE MEASUREMENTS – continued

Level 3 These are investments where values are based on prices or valuation techniques that require inputs that are both observable and significant to the overall fair value measurement. These inputs reflect certain assumptions by management about the assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

The Foundation’s investments in mutual funds and stocks are based on observable market quotations.

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, 2020

	Level 1	Level 2	Total
Mutual Funds	\$ 1,827,433	\$ -	\$ 1,827,433
Stocks	1,092,060	-	1,092,060
Total	\$ 2,919,493	\$ -	\$ 2,919,493

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

NOTE F – 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 9.1 years and a discount rate of 8%. For the years ended December 31, 2020 and 2019, the Foundation recorded an asset of \$45,996 and \$42,247 respectively, related to this split interest agreement, which is included in the accompanying statement of financial position.

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NOTE G – 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.

In addition, the Foundation entered into an equipment lease with United Business Technologies on January 2018 with a lease term of monthly payments of \$321 for a period of sixty months.

Lease commitment for Years Ending December 31,

	Office Lease	Equipment lease	Total
2021	\$ 451,875	\$ 3,852	\$ 455,727
2022	463,172	3,852	467,024
2023	474,752	321	475,073
2024	486,620	-	486,620
2025	498,786	-	498,786
2026 and thereafter	511,255	-	511,255
	<u>\$ 2,886,460</u>	<u>\$ 8,025</u>	<u>\$ 2,894,485</u>

Total occupancy expense recorded by the Foundation for the years ended December 31, 2020 and 2019 totaled \$367,484 and \$369,241 respectively.

NOTE H – NET ASSETS WITH DONOR RESTRICTIONS

The Foundation had net assets with donor restrictions for the years ended December 31, 2020 and 2019, as follows:

	2020	2019
Tax and economic literacy project	\$ 465,000	\$ -
Time restricted donations	200,000	205,000
Location matters	50,000	-
Upgrade to taxes and growth model	24,290	115,116
State Tax Business Climate Index	13,194	-
UK Reform book	-	21,055
	<u>\$ 752,484</u>	<u>\$ 341,171</u>

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
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NOTE I – 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 the salary deferrals up to 5% of the compensation. Retirement expense for the years ended December 31, 2020 and 2019 totaled \$97,581 and \$99,315 respectively.

NOTE J – CONCENTRATION OF FUNDING

At December 31, 2020 and 2019, the amount held in the Foundation's operating account exceeded the amount guaranteed by the Federal Deposit Insurance Corporation by \$1,310,626 and \$264,154 respectively. In addition, at December 31, 2020 and 2019, grants and contributions receivable of \$37,372 and \$214,198 included amounts due from three and six donors respectively, totaling \$30,000 and \$140,000, or 80% and 65% of the balance respectively. The Foundation has not experienced, nor does it anticipate, any loss of funds as a result of this concentration.

NOTE K – SUBSEQUENT EVENTS

The Foundation’s management has evaluated subsequent events for potential required disclosures through May 6, 2021, 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.