

TAX FOUNDATION

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

DECEMBER 31, 2022 AND 2021

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Board of Directors
Tax Foundation
Washington, DC

Opinion

We have audited the accompanying financial statements of Tax Foundation, (a non-profit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Tax Foundation, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Tax Foundation's, ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tax Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tax Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note B to the financial statements, during the year ended December 31, 2022, The Tax Foundation adopted new accounting guidance, Accounting Standards Update (“ASU”) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

As discussed in Note B to the financial statements, during the year ended December 31, 2022, Tax Foundation adopted new accounting guidance, Accounting Standards Update (“ASU”) 2016-02, Topic 842 *Leases*, as amended. Our opinion is not modified with respect to this matter.



Washington, DC
May 8, 2023

**TAX FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021**

	2022	2021
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,123,909	\$ 1,299,474
Investments	3,171,760	3,795,939
Contributions receivable	147,500	443,000
Accounts receivable	154,200	118,000
Prepaid expenses	89,725	55,755
Total Current Assets	5,687,094	5,712,168
PROPERTY AND EQUIPMENT		
Furniture and equipment	587,659	493,138
Leasehold improvements	645,581	645,581
Sub-total Property and Equipment	1,233,240	1,138,719
Less accumulated depreciation and amortization	(934,786)	(847,537)
Total Property and Equipment, Net	298,454	291,182
OTHER ASSETS		
Right-of-use asset, operating lease	1,361,533	-
Right-of-use assets, finance leases	58,975	-
Beneficial interest in split interest agreement	53,891	49,745
Deposits	36,751	36,751
Total Other Assets	1,511,150	86,496
TOTAL ASSETS	\$ 7,496,698	\$ 6,089,846
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 152,103	\$ 114,979
Accrued expenses	158,012	176,463
Lease liability - operating lease, current portion	451,323	-
Lease liability - finance leases, current portion	17,341	3,589
Deferred revenue	25,000	-
Deferred rent and lease incentive, current portion	-	109,059
Total Current Liabilities	803,779	404,090
NON-CURRENT LIABILITIES		
Lease liability - operating lease, net of current portion	1,465,172	-
Lease liability - finance leases, net of current portion	21,902	-
Deferred rent and lease incentive, net of current portion	-	554,962
Total Non-Current Liabilities	1,487,074	554,962
Total Liabilities	2,290,853	959,052
NET ASSETS		
Without donor restrictions	4,599,470	4,579,233
With donor restrictions	606,375	551,561
Total Net Assets	5,205,845	5,130,794
TOTAL LIABILITIES AND NET ASSETS	\$ 7,496,698	\$ 6,089,846

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

TAX FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Grants and contributions	\$ 5,283,882	\$ 709,500	\$ 5,993,382
Fundraising Event:			
Annual dinner	944,491	-	944,491
Less: direct costs	(432,949)	-	(432,949)
Net Revenue From Fundraising Event	511,542	-	511,542
Investment loss, net	(619,637)	-	(619,637)
Royalties	6,732	-	6,732
In-kind contributions	23,990	-	23,990
Net assets released from restrictions	654,686	(654,686)	-
Total Revenue and Support	5,861,195	54,814	5,916,009
 EXPENSES			
Program Services:			
Federal tax policy	1,630,543	-	1,630,543
Marketing and communication	1,360,745	-	1,360,745
State tax policy	666,826	-	666,826
Global tax reform	423,774	-	423,774
Total Program Services	4,081,888	-	4,081,888
Support Services:			
General and administration	674,165	-	674,165
Fundraising	1,084,905	-	1,084,905
Total Support Services	1,759,070	-	1,759,070
Total Expenses	5,840,958	-	5,840,958
 CHANGE IN NET ASSETS	20,237	54,814	75,051
 NET ASSETS, beginning of year	4,579,233	551,561	5,130,794
 NET ASSETS, end of year	\$ 4,599,470	\$ 606,375	\$ 5,205,845

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

TAX FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Grants and contributions	\$ 4,874,736	\$ 939,500	\$ 5,814,236
Fundraising Event:			
Annual dinner	923,704	-	923,704
Less: direct costs	(378,959)	-	(378,959)
Net Revenue From Fundraising Event	544,745	-	544,745
Investment income, net	380,759	-	380,759
Honoraria and reimbursements	1,428	-	1,428
In-kind contributions	11,000	-	11,000
Net assets released from restrictions	1,140,423	(1,140,423)	-
Total Revenue and Support	6,953,091	(200,923)	6,752,168
EXPENSES			
Program Services			
Federal tax policy	1,564,173	-	1,564,173
Marketing and communication	1,072,159	-	1,072,159
State tax policy	789,951	-	789,951
Global tax reform	449,361	-	449,361
Total Program Services	3,875,644	-	3,875,644
Support Services:			
General and administration	889,592	-	889,592
Fundraising	937,241	-	937,241
Total Support Services	1,826,833	-	1,826,833
Total Expenses	5,702,477	-	5,702,477
CHANGE IN NET ASSETS	1,250,614	(200,923)	1,049,691
NET ASSETS, beginning of year	3,328,619	752,484	4,081,103
NET ASSETS, end of year	\$ 4,579,233	\$ 551,561	\$ 5,130,794

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

TAX FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Program Services				Support Services			TOTAL	
	Federal Tax Policy	Marketing and Communication	State Tax Policy	Global Tax Reform	Total Program Services	General and Administration	Fundraising		Total Support Services
Personnel Costs:									
Salaries	\$ 1,011,004	\$ 766,744	\$ 441,319	\$ 226,887	\$ 2,445,954	\$ 184,859	\$ 651,305	\$ 836,164	\$ 3,282,118
Payroll taxes	75,901	57,566	33,132	17,034	183,633	15,329	48,896	64,225	247,858
Employee benefits	42,862	32,508	18,170	9,619	103,159	-	35,988	35,988	139,147
Retirement benefits	20,597	12,602	8,747	7,474	49,420	84,463	7,303	91,766	141,186
Total Personnel Costs	1,150,364	869,420	501,368	261,014	2,782,166	284,651	743,492	1,028,143	3,810,309
Accounting	-	-	-	-	-	124,980	-	124,980	124,980
Advertising	40,780	30,929	17,801	9,152	98,662	7,455	26,271	33,726	132,388
Bank and credit card fees	-	-	-	-	-	19,005	-	19,005	19,005
Bad debt expense	-	-	3,150	2,100	5,250	21,000	-	21,000	26,250
Charitable registration	-	-	-	9,368	9,368	4,487	-	4,487	13,855
Conference and meetings	25,169	20,675	10,787	7,191	63,822	8,990	17,079	26,069	89,891
Depreciation and amortization	26,876	20,383	11,732	6,031	65,022	4,913	17,314	22,227	87,249
Direct mail expenses	-	134,774	-	-	134,774	90,668	74,482	165,150	299,924
Dues and subscription	25,364	19,236	11,072	5,692	61,364	4,612	16,340	20,952	82,316
Equipment rental and maintenance	7,473	5,668	3,262	1,677	18,080	1,366	4,814	6,180	24,260
Grant to others	6,971	5,726	10,206	1,992	24,895	-	-	-	24,895
Grant writing	-	-	-	-	-	-	10,000	10,000	10,000
Insurance	5,841	4,798	2,503	1,669	14,811	2,583	3,465	6,048	20,859
In-kind goods	-	-	-	-	-	-	23,990	23,990	23,990
IT Support	32,056	24,313	13,993	7,194	77,556	1,218	20,651	21,869	99,425
Legal	4,398	3,336	1,920	987	10,641	804	2,833	3,637	14,278
Occupancy	108,657	82,409	47,431	24,385	262,882	19,862	69,999	89,861	352,743
Office supplies	3,234	2,657	1,386	924	8,201	1,154	2,195	3,349	11,550
Other expenses	11,044	9,072	4,733	3,156	28,005	3,945	7,494	11,439	39,444
Printing and reproduction	10,363	8,513	4,441	2,961	26,278	3,701	7,032	10,733	37,011
Professional fees	131,150	85,750	3,500	67,042	287,442	55,390	10,000	65,390	352,832
Staff development	1,080	819	471	242	2,612	198	696	894	3,506
Telecommunications	5,757	4,366	2,513	1,292	13,928	1,053	3,709	4,762	18,690
Travel	33,966	27,901	14,557	9,705	86,129	12,130	23,049	35,179	121,308
Total Expenses	\$ 1,630,543	\$ 1,360,745	666,826	\$ 423,774	\$ 4,081,888	\$ 674,165	\$ 1,084,905	\$ 1,759,070	\$ 5,840,958

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

TAX FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Program Services				Support Services			TOTAL	
	Federal Tax Policy	Marketing and Communication	State Tax Policy	Global Tax Reform	Total Program Services	General and Administration	Fundraising		Total Support Services
Personnel Costs:									
Salaries	\$ 986,706	\$ 607,054	\$ 434,463	\$ 232,486	\$ 2,260,709	\$ 433,017	\$ 407,923	\$ 840,940	\$ 3,101,649
Payroll taxes	73,633	45,470	32,569	17,411	169,083	30,952	30,580	61,532	230,615
Employee benefits	46,049	38,020	26,448	14,877	125,394	-	19,358	19,358	144,752
Retirement benefits	36,026	22,107	15,834	8,465	82,432	15,946	14,867	30,813	113,245
Total Personnel Costs	1,142,414	712,651	509,314	273,239	2,637,618	479,915	472,728	952,643	3,590,261
Accounting	-	-	-	-	-	101,439	-	101,439	101,439
Advertising	93,430	62,989	37,576	32,746	226,741	14,772	52,178	66,950	293,691
Bank and credit card fees	-	-	-	-	-	11,572	-	11,572	11,572
Charitable registration	-	-	-	8,114	8,114	2,397	-	2,397	10,511
Conference and meetings	2,272	1,599	1,010	757	5,638	1,263	1,515	2,778	8,416
Depreciation and amortization	30,959	20,872	12,451	10,851	75,133	4,895	17,290	22,185	97,318
Direct mail expenses	-	74,180	-	-	74,180	77,543	247,308	324,851	399,031
Dues and subscription	5,304	22,341	27,904	17,562	73,111	9,970	14,693	24,663	97,774
Equipment rental and maintenance	4,504	3,036	1,811	1,578	10,929	713	2,515	3,228	14,157
Grant writing	-	-	-	-	-	-	25,898	25,898	25,898
Insurance	5,671	3,991	2,520	1,890	14,072	3,467	3,465	6,932	21,004
IT Support	14,099	9,505	5,670	4,941	34,215	2,230	7,874	10,104	44,319
Legal	1,440	971	579	505	3,495	230	804	1,034	4,529
Occupancy	117,467	79,195	47,244	41,170	285,076	18,572	65,601	84,173	369,249
Office supplies	1,757	1,237	781	586	4,361	976	1,172	2,148	6,509
Other expenses	4,073	2,746	1,638	1,427	9,884	2,914	-	2,914	12,798
Printing and reproduction	15,839	11,146	7,040	5,280	39,305	8,799	10,560	19,359	58,664
Professional fees	101,578	44,500	125,000	41,050	312,128	94,468	-	94,468	406,596
Staff development	12,388	8,352	4,982	4,342	30,064	1,959	6,919	8,878	38,942
Telecommunications	1,009	5,833	-	-	6,842	45,959	75	46,034	52,876
Travel	9,969	7,015	4,431	3,323	24,738	5,539	6,646	12,185	36,923
Total Expenses	\$ 1,564,173	\$ 1,072,159	\$ 789,951	\$ 449,361	\$ 3,875,644	\$ 889,592	\$ 937,241	\$ 1,826,833	\$ 5,702,477

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

**TAX FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 2022 AND 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 75,051	\$ 1,049,691
Adjustments to reconcile changes in net assets to net cash provided for operating activities:		
Depreciation and amortization	87,249	97,318
Net investment loss (income)	692,854	(312,289)
Operating lease right-of-use asset	(1,361,533)	-
Capital lease right-of-use assets	(58,975)	-
Beneficial interest in split interest agreement	(4,146)	(3,749)
(Increase) decrease in assets:		
Contributions receivable	295,500	(443,000)
Accounts receivable	(36,200)	(80,628)
Prepaid expenses	(33,970)	71,902
Increase (decrease) in liabilities:		
Accounts payable	37,124	97,791
Accrued expenses	(18,451)	(72,345)
Capital lease liability	35,654	(3,924)
Operating lease liability	1,916,495	-
Deferred revenue	25,000	-
Deferred rent and lease incentive	(664,021)	(97,762)
Net Cash Provided by Operating Activities	987,631	303,005
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(94,521)	-
Purchases of investments	(103,829)	(567,120)
Proceeds from sales of investments	35,154	2,963
Net Cash Used for Investing Activities	(163,196)	(564,157)
NET CHANGE IN CASH AND CASH EQUIVALENTS	824,435	(261,152)
CASH AND CASH EQUIVALENTS, beginning of year	1,299,474	1,560,626
CASH AND CASH EQUIVALENTS, end of year	\$ 2,123,909	\$ 1,299,474

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

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 policies to assess the impact that such policies have on the economy, businesses, individuals and families. This compilation and analysis of tax policies is the first stage in the process of educating business executives, policies makers and the public about the role tax policies play in their lives and to help them differentiate sound tax policies from inefficient and destructive tax policies. The Foundation's operations are funded primarily through contributions from private foundations, corporations and individuals.

Program Descriptions

Federal Tax Policy - This program 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 2022, despite in-person limitations, the staff conducted more than 60 Capitol Hill meetings, briefings, and presentations to various public audiences, and produced dozens of reports and blog posts on a variety of issues that received 12,570 citations in leading media outlets.

Marketing 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 2022, the Foundation earned 23,500 media citations in the world's top news outlets, including *The Wall Street Journal*, *The Washington Post*, *The New York Times*, NBC News, Fox News, and NPR; its experts conducted 122 radio and TV interviews and placed 24 op-eds; taxfoundation.org was visited 16.9 million times; its social media audience grew 12 percent to 99,805 total followers; its digital advertising resulted in 27.7 million impressions and drove 745,751 video views; and its email newsletter grew 8 percent to 58,110 subscribers.

State Tax Policy – This program promotes state tax reform with comprehensive annual reports, research, policy analysis, and in-depth state-specific studies. In 2022, the Foundation testified or presented to officials—virtually and in-person—in 27 states, held meetings with lawmakers from 38 states, and had 97 meetings with in-state groups spanning nearly every state and the District of Columbia. The Foundation is often looked to by legislators, taxpayers, and the media (with 10,110 media citations in 2022) to recommend tax reform options or provide analysis of tax plans, navigate an increasingly mobile post-pandemic economy characterized by a greater focus on tax competitiveness.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(continued)

NOTE A – ORGANIZATION AND NATURE OF ACTIVITIES (continued)

Program Descriptions (continued)

State Tax Policy (continued)- 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 have been a vital resource to policymakers and journalists as states navigate an increasingly mobile post-pandemic economy characterized by a greater focus on tax competitiveness.

Global Tax Reform – 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. In 2022, the Tax Foundation’s work was cited in 95 countries and received 4,120 international media citations.

NOTE B – SUMMARY OF 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 Pronouncements

In September 2020, The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard requires updated presentation and enhanced disclosure related to contributed nonfinancial assets received. This enhanced disclosure includes disaggregation of significant categories of contributed nonfinancial assets and additional qualitative information regarding the use of these contributed nonfinancial assets. ASU 2020-07 has been implemented in the accompanying financial statements on a retrospective basis, however, there is no effect on net assets in connection with the implementation of ASU 2020-07 as the update only increased presentation and disclosure requirements for the prior year and did not impact amounts recorded.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-02, *Leases* (Topic 842), as amended. FASB Accounting Standards Codification (“ASC”) 842 supersedes the lease requirements in FASB ASC 840.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of New Accounting Pronouncement (continued)

The new standard requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. It establishes a right of use (“ROU”) that requires the lessee to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than twelve months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The Foundation is required to implement the new standard statements on a modified retrospective basis, and to apply the new standard to all leases existing at the date of initial application. Management elected to use the effective date of January 1, 2022 as the date of initial application and elected the package of practical expedients under ASC 842 whereby an entity need not reassess (1) whether any expired or existing leases are or contain leases, (2) the lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases.

Financial Statement Presentation

Financial statement presentation follows Financial Standards Accounting Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 958, *Not-for-Profit-Entities*. In accordance with Topic 958, net assets, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. 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 in perpetuity 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 statements of activities as net assets released from restrictions.

Net Assets with Donor Restrictions – Contributions received with donor restrictions that are met in the same reporting period are reported as support with donor restrictions and increase net assets with donor restrictions.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the statements 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 except for those funds that are part of the investment portfolio. The Foundation maintains its cash and cash equivalents balances in certain accounts which are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, the accounts may exceed these limits. However, the Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments in mutual funds and stocks are reported at fair value, which is based on observable quoted market prices. Interest income is reported when earned. Dividends are recorded on the ex-dividend date. Investment income includes the gains and losses on investments bought and sold as well as held during the year.

Contributions and Accounts Receivable

Contributions and accounts 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. As of the beginning of the year ended December 31, 2021, accounts receivable totaled \$37,372.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. Expenditures over \$2,500 that extend the life of an asset by more than one year are capitalized while repairs and maintenance are expensed. Depreciation and amortization 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, 2022 AND 2021
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Right-of-Use (“ROU”) Assets and Lease Liability

A ROU asset is measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the lease liability (that is the present value of the remaining lease payments), plus unamortized initial direct costs, and the addition or subtraction of any prepaid lease payments (accrued lease payments, less the unamortized balance of lease incentives received). Operating lease payments are recognized on a straight-line basis over the lease term.

The Foundation is a lessee in several noncancellable leases for building space and equipment. Leases for equipment were evaluated using the criteria outlined in ASC Topic 842 to determine whether the equipment leases were operating or capital leases.

As of December 31, 2022, all equipment leases were determined to be finance leases, and are recorded separately from the building lease on the statement of financial position as both a right-to-use (“ROU”) asset and lease liability, calculated by discounting fixed lease payments over the lease term at the risk-free rate. Lease liabilities are increased by interest and reduced by payments each period, and the right-of-use asset is amortized over the lease term.

For operating leases, interest on the lease liability and the amortization of the right-of-use asset result in straight-line rent expense over the lease term. Variable lease expenses, if any, are recognized when incurred.

The Tax Foundation excludes short-term leases having initial terms of 12 months or less from the new guidance as an accounting policy and recognizes rent expense on a straight-line basis over the lease term. Beginning January 1, 2022, operating and capital lease ROU assets and related current and long-term portions of operating and capital lease liabilities have been presented in the statement of financial position.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Rent

Before the adoption ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, of the Foundation recognized rent expense on a straight line basis over the term of the lease. Deferred rent was recorded as the difference in rent expense on a straight-line basis and cash payments.

Deferred Revenue

Deferred revenue consists of tax prom event (held at the annual conference) sponsorships and received in advance of the events or before the obligations have been met and is recognized as revenue when the event occurs or obligations are met. Deferred revenue as of the beginning of the year ended December 31, 2021 totaled \$0

Revenue Recognition

Grants and contributions - 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 when the contribution are received, are reported as contributions with donor restrictions.

Fundraising Events income - Revenue from the annual dinner is recognized when the event occurs, and is reported in the accompanying statements of activities net of direct expenses.

Honoraria and reimbursements - Revenue from honoraria and reimbursements is recognized at a point in time in the period when the meetings are held.

Royalties - Revenue from royalties is recognized at a point in time in the period when the royalties are received.

In-kind contributions - are recorded at fair value of the services or items received, if the items received, enhance nonfinancial assets and would otherwise need to be purchased by the Foundation. Contributed items that do not need the above criterial are not recognized.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Method Used for Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or a support 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, which are allocated on the basis of salaries and related costs, determined by estimated of time and effort expended.

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 2019 through 2021 are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(continued)

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, contributions receivable, 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.

The following table reflects the Foundation’s financial assets as of December 31, 2022 and 2021, reduced by amounts that are not available to meet general expenditures within one year of the statements of financial position date because of donor restrictions:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,123,909	\$ 1,299,474
Investments	3,171,760	3,795,939
Contributions receivable	147,500	443,000
Accounts receivable	<u>154,200</u>	<u>118,000</u>
Total Financial Assets	5,597,369	5,656,413
Less: Net assets with Donor Restrictions	<u>(606,375)</u>	<u>(551,561)</u>
Total Financial Assets Available to Meet Cash		
Needs for General Expenditures Within One Year	<u>\$ 4,990,994</u>	<u>\$ 5,104,852</u>

NOTE E – INVESTMENTS AND FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, Fair Value Measurements and Disclosures, 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 hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 of the fair value hierarchy under FASB ASC Topic 820 is described as inputs to the valuation methodology that are unadjusted quoted prices for identical assets of liabilities in active market that the Foundation has the ability to access.

Level 1 – Inputs are based on unadjusted quoted prices for identical assets traded in an active market that the Foundation has the ability to access.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(continued)

NOTE E – INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

Level 2 – Inputs are based on 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.

Level 3 - Inputs are unobservable and significant to the overall fair value measurement.

The following valuation methods may produce a fair value calculation that may not be indicative of net realizable value reflective of future fair values. Furthermore, although management believes its valuations methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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 statements of financial position as follows:

Assets at Fair Value as of December 31, 2022

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 1,064,596	\$ -	\$ -	\$ 1,064,596
Stocks	2,104,325	-	-	2,104,325
Cash	2,839	-	-	2,839
Total	<u>\$ 3,171,760</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,171,760</u>

Assets at Fair Value as of December 31, 2021

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 1,225,955	\$ -	\$ -	\$ 1,225,955
Stocks	2,569,984	-	-	2,569,984
Total	<u>\$ 3,795,939</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,795,939</u>

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(continued)

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 7.1 years and a discount rate of 8%. For the years ended December 31, 2022 and 2021, the Foundation recorded an asset of \$53,891 and \$49,745, respectively, related to this split interest agreement, which is included in the accompanying statements of financial position.

NOTE G – OPERATING LEASE

The Foundation leases its office space under a long term operating lease agreement. The lease commenced in January 2015 and expires in December 2026, 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. Future minimum lease payments are as follows for the years ending December 31,

2023	\$	474,752
2024		486,620
2025		498,786
2026		511,255
Total operating lease liability payments		1,971,413
Less: discount		(54,918)
Total Operating Lease Liability	\$	1,916,495

Total occupancy expense recorded by the Foundation for the years ended December 31, 2022 and 2021, totaled \$352,743 and \$369,249, respectively.

Average operating lease term and discount rate as of December 31, 2022 was as follows:

Weighted average remaining lease term (years): 4

Weighted average discount rate: 1.33%

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(continued)

NOTE H – FINANCE LEASES

Additionally, the Foundation has three equipment finance leases with varying dates of expiration of February 2023, January 2023 and April 2025, that require monthly payments of \$321, \$479 and \$1379, respectively.

Following are the future finance lease payments for the years ending December 31,

	<u>Copier</u>	<u>Equipment Lease</u>	<u>Equipment Lease</u>	<u>Total</u>
2023	\$ 642	\$ 471	\$ 16,548	\$ 17,661
2024	-	-	16,548	16,548
2025	-	-	5,516	5,516
Total lease payments	<u>642</u>	<u>471</u>	<u>38,612</u>	<u>39,725</u>
Less: interest	<u>-</u>	<u>-</u>	<u>(482)</u>	<u>(482)</u>
Present Value of Finance lease liabilities	<u>\$ 642</u>	<u>\$ 471</u>	<u>\$ 38,130</u>	<u>\$ 39,243</u>

Average finance lease term and discount rate as of December 31, 2022 was as follows:

Weighted average remaining lease term (years): 2.27

Weighted average discount rate: 1.01%

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 at least 21 years of age and have completed six months of employment with a minimum of 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, 2022 and 2021, totaled \$141,186 and \$113,245, respectively.

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(continued)

NOTE J – NET ASSETS WITH DONOR RESTRICTIONS

The Foundation had net assets with donor restrictions as of December 31, 2022 and 2021, as follows:

	<u>2022</u>	<u>2021</u>
Purpose Restricted:		
Tax and economic literacy project	\$ 134,927	\$ 356,573
Location matters	-	71,151
Center for state tax policy	69,214	-
Carbon tax	252,234	-
State tax business climate index	-	48,837
European Union project	<u>25,000</u>	<u>-</u>
Total Purpose Restricted	481,375	476,561
Time Restricted:	<u>125,000</u>	<u>75,000</u>
Total	<u>\$ 606,375</u>	<u>\$ 551,561</u>

NOTE K – CONCENTRATION OF FUNDING

As of December 31, 2022 and 2021, the amount held in the Foundation's operating account exceeded the amount guaranteed by the Federal Deposit Insurance Corporation by \$1,873,909 and \$1,049,474, respectively. In addition, as of December 31, 2022 and 2021, grants and contributions receivable of \$301,700 and \$561,000 included amounts due from thirteen and three donors respectively, totaling \$147,500 and \$438,000, or 49% and 78% of the balance respectively. The Foundation has not experienced, nor does it anticipate, any loss of funds as a result of this concentration.

NOTE L – IN-KIND DONATIONS

The Foundation receives in-kind donations for their annual conference. The in-kind donated items include beer, spirits, wine and PepsiCo products. The estimated fair value of the in-kind goods based on estimated fair market value rate. The in-kind items are without donor restricted but are used for the annual event purposes. The in-kind donation are allocated in the statement of functional expenses to the conference program. For the years ended December 31, 2022 and 2021, donated goods totaled \$23,990 and \$11,000, respectively

TAX FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(continued)

NOTE M – SUBSEQUENT EVENTS

The Foundation's management has evaluated subsequent events for potential required disclosures through May 8, 2023, 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.