Multistate Tax Commission

Annual Report FY2008-09

Joe Huddleston, Executive Director

MULTISTATE TAX COMMISSION

Table of Contents

To the Honorable Governors and State Legislators of Member States to the Multistate Tax Commission

One of the principal purposes of the Multistate Tax Commission is to help bring greater equity, uniformity, and compatibility to the tax laws of the various states of this nation and their political subdivisions as those laws affect multistate and multinational businesses. Additionally, the Commission provides both industry and states an organization within which to discuss and resolve their tax problems. The Commission also assists the states in encouraging multistate and multinational businesses to comply properly with state and local tax laws and, in turn, advocates improvements in laws, rules, and practices that make it easier and more convenient for those businesses to comply. Finally and fundamentally, the Commission works to help protect the tax sovereignty and jurisdiction of states under the U.S. Constitution so that the role of the states in our democratic systems of federalism remains vital and strong.

I submit to you the Annual Report of the Multistate Tax Commission, covering the Commission's activities for the fiscal year beginning July 1, 2008 and ending June 30, 2009.

Respectfully,

Joe Huddleston
Executive Director

Overview of Actions Taken by Multistate Tax Commission

The Commission held its Annual Business Meeting, as required by Article VI of the Multistate Tax Compact, on July 31, 2008, in Santa Fe, New Mexico.

The Commission took the following actions during July 1, 2008 to June 30, 2009:

- Approved the Commission Budget for 2008-2009.
- Accepted committee reports and ratified the actions of the Executive Committee for the previous program year.
- Adopted a Model Statute and Regulation for Statistical Sampling.
- Adopted a Model Statute for Taxation of Captive Real Estate Investment Trusts.
- Adopted a Model Regulation for Apportionment of Telecommunications and Ancillary Services Receipts.
- Adopted a Policy Resolution in Support of the National Conference of Commissioners on Uniform State Laws Project to Revise the Uniform Distribution of Income for Tax Purposes Act.
- Adopted Policy Statement 2002-02, *Ensuring the Equity, Integrity and Viability of State Income Tax Systems.*
- Adopted Policy Resolution 2003-01, *State-Tribal Tax Issues*.
- Elected Omar D. Davis, Director of Revenue, Missouri, as Chair.
- Elected Stephen M. Cordi, Deputy Chief Financial Officer for Tax & Revenue, District of Columbia, as Vice Chair.
- Elected Tim Russell, Commissioner, Alabama, as Treasurer.
- Elected Susan Combs, Comptroller, Texas Comptroller of Public Accounts; Ward Einess, Commissioner, Minnesota; Roxy Huber, Executive Director, Colorado Department of Revenue; and Selvi Stanislaus, Executive Director, California Franchise Tax Board, as at-large members of the Executive Committee.

The Commission did not accept any donation or grant, or borrow any services during the period of this report.

Executive Committee Report

The Executive Committee met four times during the period July 1, 2008, to June 30, 2009:

- July 31st in Santa Fe, New Mexico (immediately before the 2008 Annual Meeting of the Commission)
- November 20th in San Antonio, Texas
- January 8th in San Diego, California
- May 7th in Washington, D.C.

The meetings were regular meetings through which the committee has provided oversight and direction to the activities of the Commission.

The following persons were elected to serve as Commission officers and members of the Executive Committee for 2008-2009:

- Chair: Omar Davis (Missouri)
- Vice Chair: Stephen M. Cordi (District of Columbia)
- Treasurer: Tim Russell (Alabama)
- At-large: Selvi Stanislaus (California FTB); Susan Coombs (Texas); Roxy Huber (Colorado); and Ward Einess (Minnesota).

In January, after the committee's meeting in San Diego, Mr. Cordi became Commission Chair by operation of the bylaws upon the departure of Mr. Davis from Missouri's Department of Revenue. In May, Mr. Russell, then Commission Treasurer, was elected to the position of Vice Chair by the committee, and the duties of Treasurer were assigned to the Executive Director for the remainder of the term.

The Executive Committee took the following actions during 2008-2009:

- Approved the recommended response with respect to 5 of 7 identified issues of the COST Survey on the Joint Audit Program; the remaining 2 issues were deferred for continued study.

- Approved efforts by the Executive Director in obtaining state cooperation on withholding on non-residents to forestall federal legislation that would pre-empt the states on this issue.

- Accepted Montana's gracious offer to host the 2011 Annual Meeting of the Commission.

- In respect of the Uniform Law Commission (ULC) UDITPA project, directed the staff to keep the MTC's members well informed of progress and status of the ULC's UDITPA redrafting efforts, begin development of proposals in case the ULC effort does not go forward, and develop information to allow states to visit with their legislatures on this issue.

- Approved fees required to bring the Commission's Retirement 401(a) Plan into compliance with the changes to the tax laws since 2002 in conjunction with changing retirement plan providers.

- Approved the acquisition of up to two building parking permits at the Commission's D.C. office location beginning January 1, 2009.

- Approved the recommended follow-up response with respect to the remaining 2 issues of the COST Survey on the Joint Audit Program.

- Approved the audited financial statements as reported in an independent auditor report for fiscal year July 1, 2007 – June 30, 2008.

- Established a budget working group at the request of the Executive Director to work with him in addressing the Commission's finances in light of the overall economic downturn and state fiscal issues.

- Approved a resolution expressing appreciation to Tim Blevins, long-time chair of the Technology Committee and who left the Kansas Department of Revenue, for his work on behalf of the Commission.

- Approved a resolution expressing appreciation to Ben Miller, who has been working with the Commission for more than 20 years and who retired from the California Franchise Tax Board, for his work on behalf of the Commission.

- Approved the 2008-2009 Commission revenue budget.

- Directed the Uniformity Committee to review the Commission's model statute on combined reporting in light of the changes by the Organization for Economic Cooperation and Development to its tax haven list and listing process.

- Reviewed and reduced the number of in-person committee meetings to be held during the course of a Commission program year.

- Directed the Uniformity Committee to begin an expedited project on uniform wage withholding for circumstances addressed in the federal mobile workforce legislation.

- Directed a public hearing be held pursuant to Art. VII of the Multistate Tax Compact regarding a proposed model statute on the tax collection responsibilities of accommodation intermediaries, as amended by the Executive Committee.

- Elected Tim Russell to serve out the unexpired portion of Steve Cordi's term as Commission Vice Chair (Mr. Cordi had become Commission Chair pursuant to Bylaw 3(c) upon the departure of Omar Davis).

- Directed the Executive Director to fulfill the duties of Commission Treasurer for the unexpired portion of Tim Russell's term.

The Executive Committee undertook additional actions during 2008-2009 that are recorded in the minutes of its meetings.

The Executive Committee also held training and informational sessions in conjunction with its meeting in January 2009.

Audit Committee Report

Janielle Lipscomb, Chair, MTC Audit Committee
Rick DeBano, Vice Chair, MTC Audit Committee
Les Koenig, Director, MTC Joint Audit Program

The following report reflects the activities of the MTC Audit Committee and the Audit Program for 2008-2009 fiscal year.

Audit Committee

The Audit Committee met on July 29, 2008 in Santa Fe, NM. There were 39 members, guests and staff present at the meeting. There were 31 individuals representing 18 Audit Program States present. There were no members of the public present at the meeting.

The Audit Committee and several members of the MTC Executive Committee discussed the COST white paper on the MTC Audit Program.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 5 income tax and 3 sales tax audits that had significant issues. The Audit Committee expressed its satisfaction with the status of the audits in progress.

The Audit Committee conducted a round table discussion regarding audit leads and issues that individual states are experiencing.

The Audit Committee also met on November 19, 2008 in San Antonio, TX. There were 27 members, guests and staff present at the meeting. There were 21 individuals representing 15 Audit Program States present. There were no members of the public present at the meeting.

The Audit Committee discussed the final two questions of the COST white paper on the MTC Audit Program. A final draft was recommended for approval to the MTC Executive Committee

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 8 income tax and 3 sales tax audits that had significant issues.

The Audit Committee also selected 11 companies for the MTC audit program's sales tax inventory.

The Audit Committee conducted a round table discussion regarding audit leads and issues that individual states are experiencing.

The Audit Committee also met on March 19, 2009 in Nashville, TN. There were 19 members, guests and staff present at the meeting. There were 10 members present via a teleconference call. This total included 18 individuals representing 16 program states. There were no members of the public present at the meeting.

The Audit Committee discussed possibly reducing the number of in-person meetings to 2 a year. The Committee believed this was doable if the MTC staff held a third meeting via a teleconference once a year. The committee also expressed its preference to hold the 2 in-person meetings during the annual meeting and March. They recommended that the March meeting be held in an airport hub to make travel easier.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 13 income tax and 5 sales tax audits that had significant issues. During this discussion, several members of the committee expressed concern on the length of time that was being spent on several audits. Les explained that in many of these audits, the auditor had outstanding requests for information that the taxpayer has delayed in its response. The Audit Committee advised the staff that the MTC should consider sending demand letters and subsequent subpoenas if necessary. Oregon and Wisconsin offered examples of letters the states use. Les responded that he would follow up with the states in several audits to utilize a version of these demand letters.

The Audit Committee conducted a round table discussion regarding audit leads and issues that individual states are experiencing.

The Audit Committee also met numerous times by teleconference to discuss audits where cutting edge issues were pertinent and follow up on several audits that were protested.

Audit Program

Productivity

Audit Program completed 3 income tax audits and parts of 8 other income tax audits for fiscal year end 6/09. The Audit Program also completed 10 sales and parts of 3 other sales tax audits for fiscal year end 6/09. There are 22 income and 33 sales tax audits in progress. There were several income tax cases that were delayed by the taxpayers due to turn over in their tax staffs. The Audit Director anticipates that 14 income and 21 sales tax cases should be concluded by fiscal year end 6/10.

The Audit program proposed assessments for $39,432,308 for income tax cases and $6,862,182 for sales tax cases.

The Audit continued the process of revamping the Commission's Audit Manuals. There are two separate committees comprised of the Commission's Deputy Director, Audit Director, Audit Supervisors and auditors meeting weekly to complete this work. The income tax manual was distributed for review by the Audit Committee. It was also distributed to certain members of the public for comment. The sales tax manual should be ready for distribution to the Audit Committee soon after the Annual Meeting.

The attached charts reflects the MTC Audit Program average hours per completed audits. Please note in interpreting the enclosed charts on productivity that declining numbers represent improvement.

Staffing

As of December 31 the audit program was fully staffed. Terry Daehn a former California Franchise Tax Board auditor with 30 plus years of experience was hired to fill the income tax position. Terry started work on October 16, 2008. Ki Yun a former Ohio auditor with 6 years experience was hired to fill the sales tax vacancy. Ki began work on November 3, 2008.

MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/93- 6/09

	6/93	6/94	6/95	6/96	6/97	6/98	6/99	6/00	6/01	6/02	6/03	6/04	6/05	6/06	6/07	6/08	6/09
Income Tax Total Audits	12	9	9	9	10	9	7	10	8	7	8	7	7	9	7	7	3
Total States Audited	132	93	99	111	152	120	186	251	131	166	165	266	196	175	141	209	79
Total Hours	11208	9016	9284	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440
Average Hours Per State	**85**	**97**	**94**	**68**	**81**	**83**	**55**	**52**	**66**	**57**	**64**	**45**	**64**	**72**	**66**	**84**	**81**
Sales Tax Total Audits	14	13	15	13	14	10	16	11	14	13	11	10	11	6	15	9	10
Total States Audited	146	140	152	123	143	97	184	102	158	159	145	154	160	77	187	97	120
Total Hours	14323	6818	8009	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265
Average Hours Per State	**98**	**49**	**53**	**79**	**79**	**80**	**40**	**89**	**75**	**56**	**61**	**71**	**38**	**64**	**71**	**80**	**61**
Total Both Taxes Total Audits	26	22	24	22	24	19	23	21	22	20	19	17	18	15	22	16	13
Total States Audited	278	233	251	234	295	217	370	353	289	325	310	420	336	252	328	306	199
Total Hours	25531	15834	17293	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705
Average Hours Per State	**92**	**68**	**69**	**74**	**80**	**82**	**48**	**63**	**71**	**56**	**62**	**55**	**56**	**70**	**69**	**83**	**69**

Note: Change in policy occurred in 6/07. Audits are submitted on state by state basis rather than when entire audit is concluded. Audits are shown on this schedule when entire audit is completed. This results in a one year gap in completed audits for this reporting purpose in income tax.

Audit Hour Analysis
Last Four Quarters

	9/08	12/08	3/09	6/09	Total
Income Tax Total Audits	2	0	0	1	3
Total States Audited	54	0	0	25	79
Total Hours	3946	0	0	2494	6440
Average Hours Per State	**73**	**0**	**0**	**99**	**81**
Sales Tax Total Audits	4	1	4	1	10
Total States Audited	49	11	48	12	120
Total Hours	3091	1183	2675	316	7265
Average Hours Per State	**63**	**107**	**56**	**26**	**61**
Total Both Taxes Total Audits	6	1	4	2	13
Total States Audited	103	11	48	37	199
Total Hours	7037	1183	2675	2810	13705
Average Hours Per State	**68**	**107**	**56**	**76**	**69**

Litigation Committee Report

The MTC Litigation Committee is chaired by Marshall Stranburg, Florida Department of Revenue. Mark Wainwright and Clark Snelson, Utah Office of the Attorney General, are the Committee's co-vice chairs. The Committee undertook the following activities during fiscal year 2009.

- **In-Person Meetings**

The Committee held two in-person meetings during fiscal year 2009. The first was held July 28 and 29 in Santa Fe, New Mexico. That meeting included presentations from our members and the MTC legal staff on several topics including the implications of recent U.S. Supreme Court decisions in *Meadwestvaco* and *Davis*, nexus issues related to pass-through entities, litigation regarding sales factor sourcing for intangibles and services, strategies for minimizing taxpayer attorney's fees, and hotel intermediary litigation.

Our second meeting was held March 19 and 20, 2009 in Nashville, Tennessee. Topics included federal net operating loss limitations, constitutional implications of throwout and throwback, nexus issues related to pass-through entities, application of the 4-R Act to use tax on railroad diesel fuel, and applicability of the work-product doctrine and attorney client privilege to communications with accountants.

As usual, at each meeting we also discussed recent U.S. Supreme Court and state court decisions, and collaborated on pending litigation.

- **Bi-Monthly Government Tax Attorney Teleconferences**

The MTC hosts regular bi-monthly teleconferences for all government tax attorneys. These teleconferences generally involve two presentations on topics of current interest and allow time for discussion. We do not hold a teleconference during the month of an in-person meeting. This year, we held four teleconferences.

In September 2008, Bill Porter of the Massachusetts Office of Attorney General and Tom Condon of the Massachusetts Department of Revenue gave a presentation on the assertion of attorney/client and work product privileges to bar disclosure of tax planning documents.

Our November 2008 teleconference included a presentation from Wade "Trip" Tomlinson, a partner at Pope McGlamry Kilpatrick and Morrison in Columbus, GA, Steve Wolens, a partner in McCool Smith in Dallas, TX, and Irv Foley, a partner in Foley Bryant Holloway & Raluy in Louisville, KY, regarding the status of the hotel intermediary occupancy tax cases currently pending in a number of states.

In February 2009, we heard a presentation on the sham transaction doctrine as applied to taxation of financial institutions. Our presenters were Timothy Gage and Danforth Cardozo III, both with the Vermont Department of Taxation.

Our last teleconference was held May 2009. It included an update on the *Franchise Tax Board v. Hyatt* case currently before the Nevada Supreme Court.

- **October Meeting Concurrent with Hartman SALT Forum**

This fiscal year we held an in-person meeting for litigation committee members attending the October 2008 Hartman SALT Forum. At the meeting we discussed recent state court decisions, heard a presentation on tax sheltering issues, and collaborated on pending litigation.

- **Paull Mines Award**

On July 30, 2008, Jim Peters was presented with the first annual Paull Mines Award for Contribution to State Tax Jurisprudence.

Nexus Committee Report
Lennie Collins, Nexus Committee Chair

This report reviews Nexus Committee activity with respect to fiscal year 2009 (July 1, 2008 through June 30, 2009).

Committee Activities

The committee met three times during this period:

- July 29, 2008
- November 19, 2008
- March19, 2009

The committee heard staff reports about activities of the National Nexus Program and offered general direction to Nexus program staff. It engaged in the following activity with staff support from the director of the National Nexus Program:

- Continued markup of the voluntary disclosure guidelines.

  Similar to an audit manual, this document will provide guidance to Commission staff and taxpayers regarding state voluntary disclosure policies. The committee anticipates being able to send the Executive Committee a copy for its consideration shortly.

- Continued oversight of the renovation and improvement of the Commission's voluntary disclosure software.

  The first portion of this project is complete, except for the implementation of the on-line voluntary disclosure application form, which will be deployed after some minor adjustments to the Commission's computer system are made. Voluntary disclosure staff is using the software to track disclosures (more than one thousand Cases at any given time). This software has increased productivity and given staff new tools with which to serve members and report results.
  The second portion of this project involves giving states and taxpayers access to the software so that they may perform some functions themselves. The second portion will also allow communication directly between state and taxpayer. The second portion has not been approved or funded. However, the Nexus Committee will consider some general ideas about the desirability (or not) of such a system, the features it might have, and how it might be designed.

- Consideration of staff reports on the practices of three industries or vendors that sell remotely without benefit of use tax registration.

  In one case the committee offered the company voluntary disclosure, which the company declined. In all three cases the committee decided based on staff investigation that there was insufficient basis to proceed with a more thorough nexus audit or other enforcement action.

- Consensus that two Nexus Committee meetings per year would be preferable to three, but only if they are evenly spaced chronologically.

- Roundtable discussions of nexus issues.

Multi-state Voluntary Disclosure

In fiscal year 2009 (June 30, 2009 year end) the National Nexus Program:

- Executed contracts with 69 taxpayers (Files), which resulted in 345 separate contracts with states (Cases).

- Opened 83 new voluntary disclosure Files, representing 815 Cases.

Please note that some opened Files are closed without an executed contract or are closed with less than the initially estimated number of contracts executed. In other words, if history is a guide, roughly half the 815 opened Cases will result in executed contracts

- Collected back tax of **$33.85 million** (likely to rise due to late-arriving data).

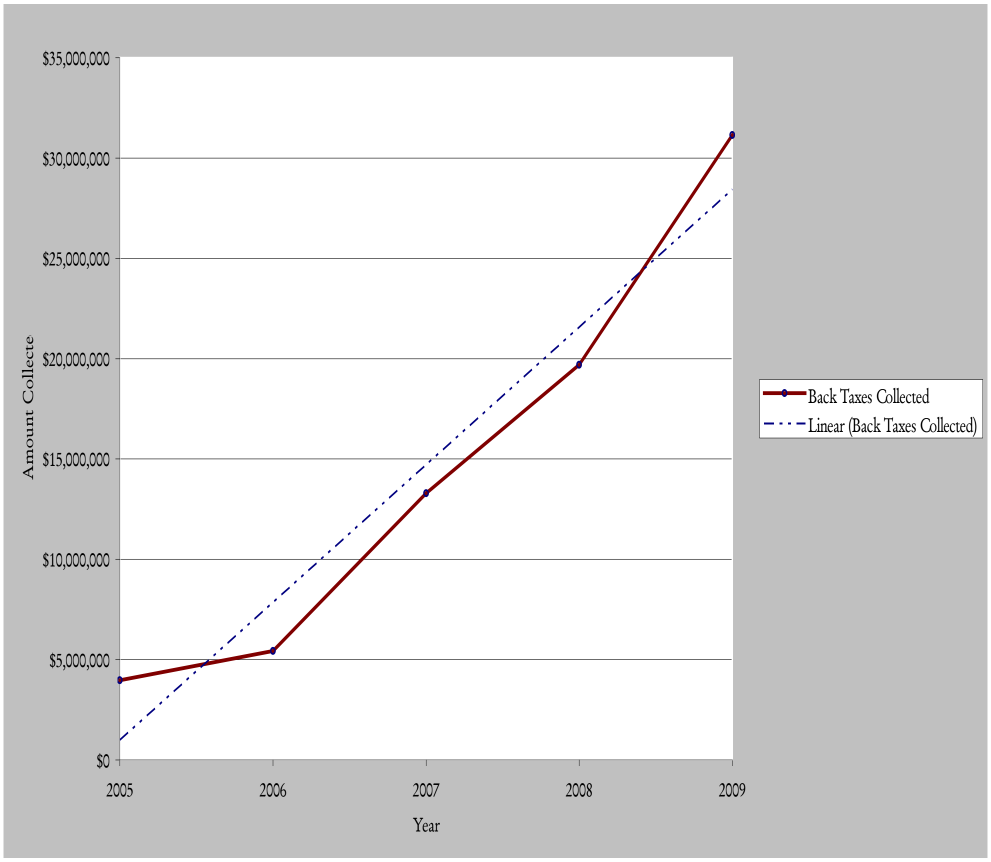
- **Return On Investment: > 38:1**

  ROI Methodology: $33,854,883 revenue / nexus fees $881,691 = 38.398, rounded to 38. This number is calculated using all revenue collected, from both Nexus member and non-member states. The ROI is 37:1 when revenue with respect to non-members is excluded.

It is important to also note that most of this year's revenue came from a single group of affiliated taxpayers. Because this taxpayer chose to disclose through the Commission to a relatively small number of states, this year's revenue is concentrated in those states. This affiliated group of taxpayers continues to negotiate with other states through the Commission, so there will likely be similar revenue in other states in FY 2010.

The chart below shows revenue collected with respect to fiscal years 2005 - 2009. No portion is an estimate, although the 2009 amount may rise slightly due to late-arriving data. Only back tax* actually collected is included. Interest

**Insignificant amounts of penalty, interest, registration fee, etc. may be included if actually collected with respect to back periods.*

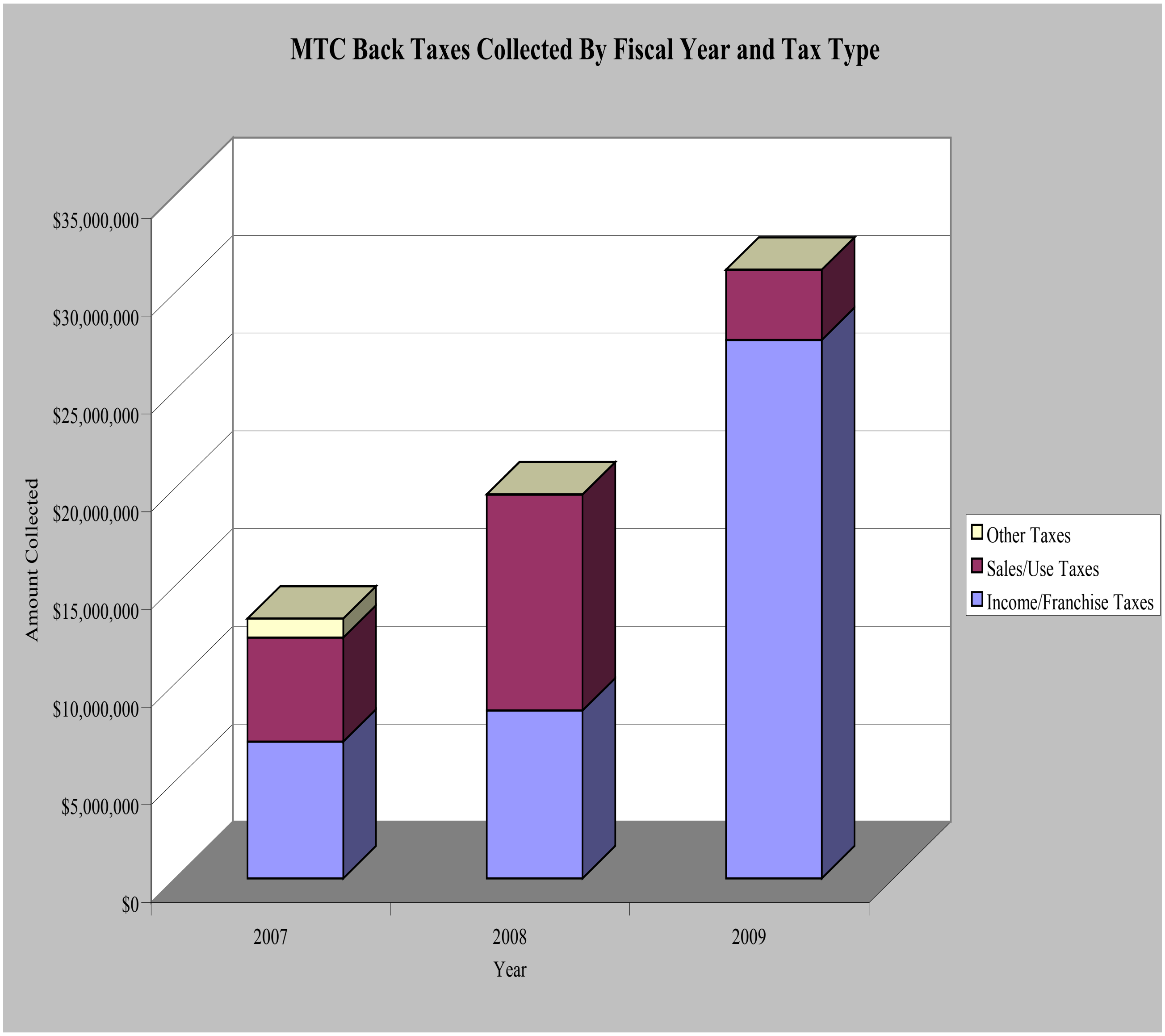


on back tax collected is billed by the state directly to the taxpayer at the conclusion of the disclosure and is not included. The revenue reflected in these charts takes no account of future amounts collected as the result of having a new taxpayer.

The chart below shows revenue collected fiscal year 2007 – 2009, broken out by type of tax. No portion is an estimate, although the 2009 amount may rise slightly due to late-arriving data. Only back tax* actually received is included. Interest on back tax collected is billed by the state directly to the taxpayer at the conclusion of the disclosure and is not included. The revenue reflected in these charts takes no account of future amounts collected as the result of having a new taxpayer.

Sales/use tax usually represents the majority of tax collected, but not so in fy 2009 because most of the tax collected in that year was due to a single affiliated group of taxpayers whose disclosures concerned business activity tax (BAT) only. This favor toward BAT will likely repeat itself in FY 2010 as this taxpayer has more disclosure business to conclude through the Commission.

**Insignificant amounts of penalty, interest, registration fee, etc. may be included if actually collected with respect to back periods.*



Technology Committee Report

Steve Wilson, Chair

The Technology Committee is chaired by Steve Wilson of the Idaho State Tax Commission; there is currently no vice-chair. The committee was chaired by Timothy R. Blevins of the Kansas Department of Revenue until his departure from government service in December 2008.

The committee met July 28, 2008 in Santa Fe, New Mexico, and March 18, 2009, in Nashville, Tennessee. The committee also held seven teleconferences: September 30, November 6, and December 9 in 2008, January 13, February 17, May 26, and June 23 in 2009.

The committee is pleased to report the following improvements or refinements to the Commission's technology systems and assets that have been implemented during 2008-2009:

- The Voluntary Disclosure Program database migration project is successfully completed, with final steps taken for the online application process to be completed by the Commission's annual meeting on July 30, 2009. The National Nexus Program staff has been using the new database application since January.

- An online registration process, albeit one that doesn't provide for online payment, is now is in use for all training programs and meetings. This online registration process was worked out by the Commission's Website Manager, Sabrina Worthington, in lieu of the one implemented by our website developer because it was not flexible enough to accommodate some events. The committee will be working with staff on pursuing online payment processing through a different source.

- A secured messaging platform has been implemented and is in use by appropriate Commission staff; further refinements, as well as improvements to security and connectivity for branch offices and remote staff are underway.

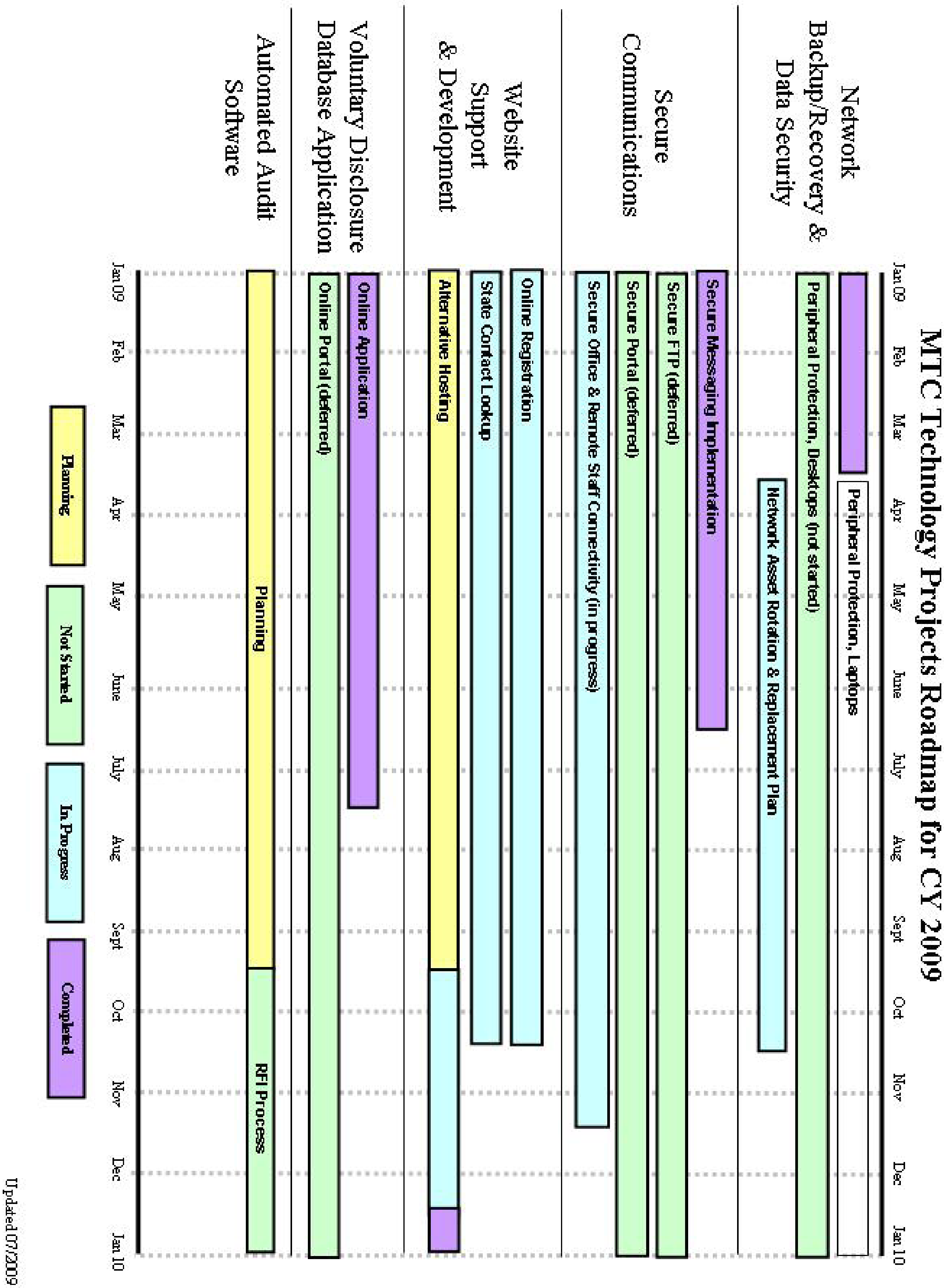
The following are the near-term projects that the committee is working on:

- Automated audit program software for the Joint Audit Program; the committee is preparing a request for information (RFI) to be issued within the next few months.

- Support replacement or upgrade of MTC computing and information security infrastructure through periodic replacement of PCs, servers and other technology equipment and systems.

- Further implementation of the secure communications plan (including enhancing the Commission's website as a robust portal for tax administration)

An updated project roadmap for calendar year 2009 is attached.


MTC Technology Projects Roadmap for CY 2009
Network Backup/Recovery & Data Security
Peripheral Protection, Desktops (not started)
Peripheral Protection, Laptops
Network Asset Rotation & Replacement Plan
Secure Messaging Implementation
Secure Communications
Secure FTP (deferred)
Secure Portal (deferred)
Secure Office & Remote Staff Connectivity (in progress)
Website Support & Development
Online Registration
State Contact Lookup
Alternative Hosting
Voluntary Disclosure Database Application
Online Application
Online Portal (deferred)
Automated Audit Software
Planning
RFI Process
Jan 09
Feb
Mar
Apr
May
June
July
Aug
Sept
Oct
Nov
Dec
Jan 10
Planning
Not Started
In Progress
Completed
Updated 07/2009

Training Program Report

The Commission presented nine sessions of the following courses during the 2008/2009 fiscal year: Nexus School, Corporate Income Tax, and Statistical Sampling for Sales and Use Tax Audits. In addition, Commission staff support the October 2008 FTA/MTC Audit and Computer Technology Workshop in Albuquerque. Six sessions of MTC courses are schedule for the coming year and online registration is now in place for all MTC courses.

Courses Offered in 2008/2009

The following MTC courses were offered during the year:

Nexus School
- September 15-16, 2008 in Omaha, Nebraska for 28 students
- October 21-22, 2008 in Boise, Idaho for 28 students
- December 16-17, 2008 in Olympia, Washington for 45 students
- February 9-10, 2009 in Baton Rouge, Louisiana for 18 students
- May 18-19, 2009 in Little Rock, Arkansas for 27 students

Corporate Income Tax
- December 8-9, 2008 in Boston Massachusetts for 50 students (Part 1 only)
- April 20-23, 2009 in Charleston, West Virginia for 41 students in Part 1 and 16 student in Part 2

Statistical Sampling for Sales and Use Tax Audits
- July 14-17, 2008 in Cheyenne, Wyoming for 31 students
- March 2-5, 2009 in Topeka, Kansas for 10 students

The Commission staff also supported the 2008 FTA/MTC Audit and Computer Technology Workshop in Albuquerque for 68 participants on October 6-8, 2008.

The long-standing training credit with the State of Washington was completely utilized with the delivery of the Nexus School in Olympia, Washington in December. Prior to the course, this credit was $18, 275.79.

Courses Schedule for 2009/2010

The following courses are currently scheduled:

Nexus School
- October 19-20, 2009 in Topeka, Kansas
- December 7-8, 2009 in Washington, DC Metro Area
- (National Conference Center in Lansdowne, Virginia)

Computer Assisted Audit Using Excel and Basic Random Sampling
- September 14-18, 2009 in Mitchell, South Dakota

Statistical Sampling for Sales and Use Tax Audits
- October 19-22, 2009 in Chicago, Illinois
- March 22-25, 2010 in Dallas, Texas
- June 7-10, 2010 in Atlanta, Georgia

We also anticipate scheduling Corporate Income Tax and Computer Assisted Audit Using Excel, and additional sessions of other courses, as interest is expressed by the states. The statistical sampling courses are being offered without a host state, with the expectation that there will be sufficient interest to proceed with these sessions. Updates to our schedule as well as registration information can be found at www.mtc.gov or by contacting Antonio Soto at 202-508-3846.

NASBA Certification and Continuation Education Credit

The Commission has renewed its registration with the National Association of State Boards of Accountancy (NASBA) as a CPE sponsor. This registration is for "group-live" programs. Accounting boards in 45 states and the District of Columbia recognize NASBA certification for granting of CPE credit for in-person courses. The Commission also certifies attendance for CLE credit at Commission sponsored events.

Tuition and Host State Credit

The tuition schedule for 2009-2010 remains at the level established for 2007/2008. The current rates for Compact and Sovereignty member states reasonably reflect the cost of staff time and variable costs for our courses. Tuition for private sector participants in the Statistical Sampling and other courses is now set at 75% above the level for Compact and Sovereignty members. The "add-on" for Project Member States is 25% and Other States is 40%, relative to the fees for Compact and Sovereignty members.

The Commission provides a host state credit of up to $3000 for each course. The credit is for support related to the course and applies to tuition for host state students.

Private Sector Participation

We had three private sector participants at the April 2008 Statistical Sampling for Sales and Use Tax Audits course in Denver, and we continue to promote this course to the private sector. At the April 2009 Corporate Income Tax course in West Virginia, we had three private sector participants in Part 1 (Principles of Allocation and Apportionment) of the course.

Online Registration

Online registration is now being used for all MTC courses and most MTC in-person meetings. Payment is being handled separately from online registration.

Uniformity Committee Report

The Uniformity Committee is chaired by Ted Spangler, Idaho. The Committee structure includes two standing Subcommittees: the Income & Franchise Tax Uniformity Subcommittee, chaired by Wood Miller, Missouri; and the Sales & Use Tax Uniformity Subcommittee, chaired by Richard Cram, Kansas. In addition, the Subcommittees have appointed Work Groups and Drafting Groups, as needed. Lennie Collins, North Carolina, chairs the Work Group for the Financial Institutions Apportionment project. The Committee; together with its Subcommittees, Work Groups and Drafting Groups; worked on the following nine projects during fiscal year 2009.

Income and Franchise Tax Subcommittee

Amendments to Model Financial Institutions Apportionment Rule

The Subcommittee's Work Group, which includes representatives from several states and industry, identified problems and proposed conceptual policy solutions for this MTC model rule. Problems include the SINAA provisions in the model's property factor and the "catch all" provision for sales factor sourcing of receipts that are not otherwise specifically sourced (currently these are sourced based on cost of performance). The next step is for the Subcommittee to review these recommendations and give the Work Group direction, so that the Work Group may begin drafting proposed amendments.

Income Earned by Non-Income Taxpayers Derived from an Ownership Interest in a Pass-through Entity

This project addresses problems that arise when a pass-through entity is owned by an entity that does not pay income tax (e.g., an insurance company). The project is in its education phase. Informative presentations have been made by industry groups and by representatives of states that have pertinent statutory or case law. In July, the Subcommittee's Work Group of state representatives will give presentations on the use of captive insurance companies, state insurance company taxation that uses a tax base broader than gross premiums, and federal income taxation of insurance companies. The next step is for the Subcommittee to determine which problems it will address and which approach, or approaches, should be developed as a model.

Amendments to MTC Model Regulation IV.18

The Subcommittee is considering two alternative amendments developed by its Drafting Group. Each of the amendments would broaden both state and taxpayer ability to attain distortion relief.

Addendum to MTC Model Add-Back Statute to Address Captive REIT Payments

This project addresses captive REIT related issues that arise for separate entity states and that are not already addressed through either the MTC model add-back statute or the MTC model captive REIT statute. The project is in its educational phase. Staff has prepared a background memorandum for the Subcommittee's July meetings that explains the problem and identifies solutions that have been implemented in 3 states.

Project on Model Withholding Statute

The Executive Committee requested the Subcommittee expedite a model withholding statute for employees that perform their job responsibilities in multiple states. Staff prepared a draft policy issue list for the Subcommittee to work through in July. The Subcommittees policy choices will guide the drafting of the model statute.

Review of Tax Haven Provision in MTC Model Combined Reporting Statute

The MTC model combined reporting statute does not exclude foreign affiliates doing business in a tax haven from the water's edge combined group. The model defines "tax haven" jurisdictions by reference to an OECD standard and list. The OECD recently changed the structure of its list, and the Executive Committee requested uniformity committee review the model in light of these changes. Staff has prepared a background memorandum for Subcommittee discussion in July.

Sales and Use Tax Subcommittee

Model Statute for Tax Collection and Remittance by Accommodations Intermediaries

The Subcommittee has recommended a model statute that sets out a process for intermediaries to follow in collecting and remitting lodging tax due on the full price charged to customers, including the mark-up. The Subcommittee referred this proposal to the Uniformity Committee for its consideration.

Model Statutes for Administering Telecommunications Transaction Taxes

The Subcommittee's Drafting Group, which includes representatives from both government and industry, has prepared three models for centralized administration of state and local telecommunications taxes. Proposal I could apply in states where tax imposition and administration are solely at the state level. Proposal II could apply in states where there is local authority to impose tax, but required administration at the state level. Proposal III could apply in states where authority to tax as well as centralized administration is at the local level. The Subcommittee directed the Drafting Group to concentrate on further development of Proposal II first. Local government representatives have been invited to participate. Because proposed federal Streamlined legislation, which is currently being drafted, would require simplification of state and local telecommunications transactions tax administration, staff for the Streamlined Sales Tax Governing Board will also participate.

Comparison of MTC Model Sales Tax Recommendations with the Streamlined Sales & Use Tax Agreement.

The Subcommittee reviewed all of the Commission's sales and use tax uniformity recommendations for consistency with the Streamlined Sales & Use Tax Agreement. The Subcommittee identified two recommendations, Guideline of Signatory States on Applicability of Sales and/or Use Tax to Sales of Computer Software (1993) and Uniform Principles Governing State Transactional Taxation of Telecommunications — Vendor and Vendee Versions (1988) as out-of-date and inconsistent with SSUTA. At its July 2009 meeting, the Subcommittee will review proposals for significantly amending or repealing both of these model provisions.

Uniformity Committee

Model Statute on Collection Responsibilities of Accommodations Intermediaries

The Subcommittee recommended this proposal, which sets out a process for intermediaries to follow in collecting and remitting lodging tax due on the full price charged to customers, including the mark-up. The Uniformity Committee approved the draft proposal and recommended it to the Executive Committee for referral to the Commission's Public Hearing process. The Executive Committee did adopt the recommendation and a hearing was held July 21, 2009.

MULTISTATE TAX COMMISSION

Financial Statements and Report of Independent Certified Public Accountants

For the Years Ended June 30, 2009 and 2008

LSWG

Linton Shafer Warfield & Garrett, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

MULTISTATE TAX COMMISSION
Table of Contents
June 30, 2009 and 2008

Linton Shafer Warfield & Garrett, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

EDWARD T. GARRETT, CPA
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PAUL D. HEMME, CPA
KEVIN R. HESSLER, CPA
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BARBARA CLINE-ROMAN, CPA
RONALD W. SHAFER, CPA
DOUGLAS C. WARFIELD, CPA, CVA

Report of Independent Certified Public Accountants

Executive Committee
Multistate Tax Commission

We have audited the accompanying balance sheets of Multistate Tax Commission as of June 30, 2009 and 2008 and the related statements of revenue and expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Multistate Tax Commission as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Linton Shafer Warfield & Garrett, P.A.

November 6, 2009

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MULTISTATE TAX COMMISSION
Balance Sheets
June 30,

ASSETS

		2009		2008
Current Assets				
Cash and cash equivalents	$	2,847,135	$	3,580,621
Accounts receivable				
Schools		3,580		48,736
Members		82,035		-
Accrued interest		10,066		-
Prepaid expenses		49,197		56,254
Total Current Assets		2,992,013		3,685,611
Property and Equipment - at Cost				
Office furniture and equipment		647,487		695,152
Leasehold improvements		236,147		235,452
Less: accumulated depreciation and amortization		(566,646)		(556,151)
Property and Equipment - Net		316,988		374,453
Other Assets				
Investments		1,177,308		-
Expense account advances		7,600		7,200
Deposits		6,643		6,643
Total Other Assets		1,191,551		13,843
TOTAL ASSETS	$	4,500,552	$	4,073,907

2

LIABILITIES

		2009	2008
Current Liabilities			
Accounts payable		$ 14,369	$ 42,594
Payroll taxes withheld and accrued		32,472	30,327
Accrued salaries and vacation pay		346,432	319,046
Accrued self insurance		-	66,000
Current portion of capital lease obligation		4,417	5,036
Deferred assessments and audit reimbursements		293,405	120,155
Total Current Liabilities		691,095	583,158
Long-Term Liabilities			
Capital lease obligation		-	4,417
Total Long-Term Liabilities		-	4,417
TOTAL LIABILITIES		691,095	587,575
Commitments and Contingencies - Note 3			
Fund Balances			
Unappropriated		2,533,759	2,129,185
Appropriated		473,214	455,714
Restricted		802,484	901,433
Total Fund Balances		3,809,457	3,486,332
TOTAL LIABILITIES AND FUND BALANCES		$ 4,500,552	$ 4,073,907

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Revenue and Expenses
and Changes in Fund Balance
Unappropriated Funds
For the Years Ended June 30,

	2009	2008
Revenue - Unappropriated and Appropriated		
Assessments	$ 5,689,086	$ 5,322,530
Interest	48,847	157,114
Other income		
Training fees	174,647	143,755
Miscellaneous	24,391	16,058
Total Revenue	5,936,971	5,639,457
Expenses - Unappropriated and Appropriated		
Accounting	17,211	16,024
Bonds and insurance	18,442	20,791
Conferences and training schools	121,711	121,593
Depreciation and amortization	92,783	66,165
Bond amortization	1,283	-
Employee benefits	793,585	660,437
Miscellaneous	13,623	14,991
Consumable supplies	42,244	52,612
Postage	28,408	27,225
Printing and duplicating	24,098	26,336
Professional services	189,880	155,200
Publications and electronic resources	32,299	38,318
Recruitment	2,450	5,328
Rent	269,868	280,909
Repairs and maintenance	8,712	12,003
Retirement plan	391,900	367,372
Salaries	3,247,327	3,004,734
Software licenses	19,303	23,583
Staff training	10,659	14,508
Subscriptions, publications, dues	39,538	34,884
Telephone	53,331	48,076
Travel	282,558	315,827
Allocation of administrative expenses	(186,316)	(109,651)
Total Expenses	$ 5,514,897	$ 5,197,265

(continued)

4

MULTISTATE TAX COMMISSION
Statements of Revenue and Expenses
and Changes in Fund Balance
Unappropriated Funds
For the Years Ended June 30,

	2009	2008
Excess of Revenue Over Expenses	$ 422,074	$ 442,192
Transfer to Appropriated Fund Balance	(17,500)	65,721
Transfer from Restricted Fund Balance	-	26,975
Total Amount Transferred	(17,500)	92,696
FUND BALANCE - Unappropriated - Beginning of Year	2,129,185	1,594,297
FUND BALANCE - Unappropriated - End of Year	$ 2,533,759	$ 2,129,185

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

5

MULTISTATE TAX COMMISSION
Statements of Changes in Fund Balance
Appropriated Funds
For the Years Ended June 30,

	State Tax Compliance	Federalism At Risk
Fund Balance - June 30, 2007	$ 23,918	$ 25,146
Transfer to Unappropriated Fund Balance	-	-
Net Amount Transferred (To) From Unappropriated Fund Balance	-	-
Fund Balance - June 30, 2008	23,918	25,146
Transfer from Unappropriated Fund Balance	-	-
Net Amount Transferred (To) From Unappropriated Fund Balance	-	-
Fund Balance - June 30, 2009	$ 23,918	$ 25,146

6

Equipment Reserve		Enterprise Automation Project		Nexus Activities		Membership Development and Relations		Total
$	-	$	353,516	$	90,000	$	28,855	$	521,435
	-		(65,721)		-		-		(65,721)
	-		(65,721)		-		-		(65,721)
	-		287,795		90,000		28,855		455,714
	17,500		-		-		-		17,500
	17,500		-		-		-		17,500
$	17,500	$	287,795	$	90,000	$	28,855	$	473,214

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Changes in Fund Balance
Restricted Funds
For the Years Ended June 30,

	4R Project	Nexus Program	Total
Fund Balance - June 30, 2007	$ 42,694	$ 618,688	$ 661,382
Revenue	-	812,040	812,040
Expenses	-	545,014	545,014
Excess (Deficiency) of Revenue Over Expenses	-	267,026	267,026
Transfer to Unappropriated Fund Balance	-	(26,975)	(26,975)
Fund Balance - June 30, 2008	42,694	858,739	901,433
Revenue	-	816,831	816,831
Expenses	-	915,780	915,780
Excess (Deficiency) of Revenue Over Expenses	-	(98,949)	(98,949)
Transfer to Unappropriated Fund Balance	-	-	-
Fund Balance - June 30, 2009	$ 42,694	$ 759,790	$ 802,484

The accompanying notes are an integral part of these statements.

8

MULTISTATE TAX COMMISSION
Statements of Cash Flows
For the Years Ended June 30,

		2009		2008
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows From Operating Activities				
Excess of revenue over expenses	$	323,125	$	709,218
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities				
Depreciation		98,181		67,587
Bond amortization		1,283		-
Loss on disposal of property and equipment		762		20,539
Unrealized loss on investments		1,147		-
Changes in assets and liabilities				
Accounts receivable				
Schools		45,156		(33,736)
Members		(82,035)		-
Prepaid expenses		(3,009)		(3,883)
Expense account advances		(400)		-
Deposits		-		4,218
Accounts payable		(28,225)		(25,826)
Payroll taxes withheld and accrued		2,145		1,753
Accrued salaries and vacation pay		27,386		40,325
Accrued self insurance		(66,000)		10,000
Deferred assessments and audit reimbursements		173,250		(429,310)
Net Cash Provided by Operating Activities		492,766		360,885
Cash Flows From Investing Activities				
Purchase of property and equipment		(41,703)		(276,558)
Proceeds from sale of property and equipment		225		-
Purchase of investments		(1,179,738)		-
Payments on capital lease		(5,036)		(4,764)
Net Cash Used in Investing Activities		(1,226,252)		(281,322)
Net Increase (Decrease) in Cash and Cash Equivalents		(733,486)		79,563
Cash and Cash Equivalents - Beginning of Year		3,580,621		3,501,058
Cash and Cash Equivalents - End of Year	$	2,847,135	$	3,580,621
Supplemental Disclosures				
Income taxes paid	$	-	$	-
Interest paid	$	400	$	672

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

9

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2009 and 2008

1. Summary of Significant Accounting Policies

The Multistate Tax Commission (the Commission) was organized in 1967. It was established under the Multistate Tax Compact, which by its terms, became effective August 4, 1967. The basic objective of the Compact and, accordingly, the Commission is to provide solutions and additional facilities for dealing with state taxing problems related to multi-jurisdictional business.

Cash Equivalents

For purposes of the statement of cash flows, the Commission considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Commission considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

All property and equipment is stated at cost and depreciated using straight-line and accelerated methods based upon estimated useful lives as follows:

Leasehold Improvements	5 years
Office Furniture and Equipment	5 to 7 years

Expenditures for maintenance and repairs are charged to the appropriate expense accounts as incurred. Expenditures for renewals or betterments which materially extend the useful lives of assets or increase their productivity are capitalized at cost. The costs and related allowances for depreciation of assets retired or otherwise disposed of are eliminated from the accounts. The resulting gains or losses are included in the determination of excess of revenue over expenses.

Deferred Assessments and Audit Reimbursements

Assessments and audit reimbursements are due from the respective states on July lst of each year (unless other specific arrangements are made with a State) and cover the following twelve-month period. Assessments received prior to July 1st for the following year are unearned and considered deferred income until recognized as revenue in the following year.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2009 and 2008

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

In the opinion of legal counsel, the Commission is exempt from Federal income taxes as well as from other Federal taxes as an organization of a group of States or as an instrumentality of those States. Therefore, no provision has been made in the financial statements for Federal income taxes.

Capital Lease

A long-term lease transaction relating to the financing of equipment is accounted for as a capital lease. Capital lease obligations reflect the present value of future rental payments, discounted at the interest rate implicit in the lease.

A corresponding amount is capitalized and amortized over the assets estimates economic lives on a straight-line basis. The amortization is included in depreciation expense.

Fair Value

The Commission adopted SFAS 157 Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements and establishes a hierarchy for valuation inputs.

The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Fair value measurement is reported in one of the three levels which are determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 - inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

- Level 2 - inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2009 and 2008

1. Summary of Significant Accounting Policies (Continued)

Fair Value - continued

- Level 3 - inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

2. Retirement Plan

Effective June 30, 1986, the Commission adopted a defined contribution plan to be funded at a rate of 12.4% of each participating individual's annual salary. To participate in this plan, employees are required to work more than certain pre-determined hourly and monthly levels throughout the plan year. The total pension expense relating to the defined contribution plan for the years ended June 30, 2009 and 2008 was $421,319 and $394,703, respectively.

3. Commitments

The Commission rents its office facilities in Washington, D.C., New York, and Illinois under lease agreements with terms expiring on various dates through March 31, 2015. These leases provide for the following minimum annual base rentals exclusive of utility charges and certain escalation charges:

Fiscal Year Ended:	Minimum Annual Payment
2010	$ 333,430
2011	338,951
2012	341,773
2013	356,442
2014	159,267

The leases include certain escalation charges based on various factors including utility, operating expense and property tax increases from a base year. Rent expense, exclusive of utility charges and real estate taxes, for the years ended June 30, 2009 and 2008 was $374,724 and $345,956, respectively.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2009 and 2008

4. Appropriated Fund Balances

The Commission's executive committee authorized the Enterprise Automation fund in the amount of $73,000 during the year ended June 30, 1997. An additional $614,298 has been authorized in subsequent years. The purpose of this fund is to provide support, through professional services, for developing enterprise-wide applications for managing the Commission information resources in a manner that enhances its operations.

The Commission's executive committee authorized the Nexus Activities fund in the amount of $80,000 during the year ended June 30, 1997. An additional net amount of $20,000 has been authorized in subsequent years. The purpose of this fund is to provide support for Commission nexus activities including, a) research and writing on Constitutional nexus issues and b) a reserve for professional services to support work on potential nexus cases in litigation.

The Commission's executive committee authorized the Membership Development and Relations fund in the amount of $150,000 during the year ended June 30, 2000. The purpose of this fund is to support efforts aimed at increasing membership.

The Commission's executive committee authorized the State Tax Compliance fund in the amount of $23,918 during the year ended June 30, 2004. The purpose of this fund is to support the implementation of the recommendations of the Commission's State Tax Compliance Initiative and the measures to improve state tax compliance by multi state taxpayers as approved by the Executive Committee or Commission.

The Commission's executive committee authorized the Federalism at Risk fund in the amount of $120,000 during the year ended June 30, 2002. The purpose of this fund is to provide support for an inquiry to assess the status of state and local tax systems. This inquiry culminated in a written report published in 2003.

The Commission's executive committee authorized the Equipment Reserve fund in the amount of $17,500 during the year ended June 30, 2009. The purpose of this fund is to provide support for purchases of computer equipment for the Commission's audit program and information technology department.

5. Restricted Fund Balances

During the year ended June 30, 1988, the 4R Program was established whereby contributions received are restricted to use for supporting education, lobbying and legal expenses related to this property tax project. The purpose of the project is to provide for research activities as well as to seek favorable changes in Federal laws which are related to property tax restrictions of state and local governments.

5. Restricted Fund Balances (Continued)

During the year ended June 30, 1991, the National Nexus program was established. This program, funded by participating states, aims to encourage and secure taxpayer compliance with current state laws, a liability resolution process, and information sharing among member states. The contributions received from the participating states are restricted for this purpose.

6. TaxNet Governmental Communications Corporation (TaxNet)

TaxNet is a separate corporation organized as a public charity and instrumentality of the states for the purpose of establishing, maintaining and administering an electronic communications network to allow subscriber access to tax information and communication with governmental tax offices. The corporation is managed by a board of directors, which includes, in accordance with its bylaws, the Chair, Vice Chair and Executive Director of Multistate Tax Commission.

Among other things, the Commission assisted in the formation of TaxNet by contributing legal services. The Commission continues to assist TaxNet by contributing other legal services. Such services have not been reflected separately in the accompanying financial statements, because such amounts are not material.

7. Deferred Compensation Plan

The Commission offers employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. In accordance with federal law, participants' deferred compensation under the plan is trusteed and thus shielded against the claims of the creditors of the Commission and therefore, not included in these financial statements.

The Commission believes it has no liability for losses under the plan but does have a duty of due care that would be required of an ordinary prudent investor.

Investments are managed by the plan's trustee under twenty one investment options or a combination thereof. The participants make the choice of the investment option(s).

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2009 and 2008

8. Investments

The following is a summary of investments along with their respective fair values, all of which are considered level one:

	Cost 2009	Market 2009	Cost 2008	Market 2008
Investments				
Certificates of deposit	$ 250,000	$ 250,000	$ -	$ -
US Government and Agency securities	928,456	927,308	-	-
Total Investments	$ 1,178,456	$ 1,177,308	$ -	$ -

The Commission invests in a professionally managed portfolio that contains mutual funds. Such investments are exposed to various risks such as interest rates, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

9. Allocation of Administrative Expenses

The administrative costs of providing the various programs and other activities have been allocated among the programs and supporting services, based on total operating costs.

10. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reporting period, and disclosures. Actual results could differ from those estimates.

11. Concentration of Credit Risk

The Commission maintains cash balances in two banks. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at each bank. The Commission has a collateral agreement with one bank to cover amounts uninsured by FDIC. At June 30, 2009 and 2008, there was uninsured cash balances of $10,031 and $0, respectively. The Commission has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

15

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2009 and 2008

12. Capital Lease

The Commission acquired certain equipment under the provisions of a long-term lease.

Future minimum lease payments under the capital lease are as follows:

Year Ended	
2010	$4,417

13. Self Insurance

During the fiscal year ended June 30, 2007, the Commission modified its employee health insurance coverage to adopt a self insurance element. The terminal cost represents an estimate of the Commission's liability for claims during the terminal protection period. As of June 30, 2009 and 2008 the estimated terminal cost accrued is $0 and $66,000, respectively. Effective September 1, 2008 the Commission opted out of the self insurance plan.

SUPPLEMENTARY INFORMATION

LSWG
Linton Shafer Warfield & Garrett, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Certified Public Accountants on Supplementary Information

Executive Committee
Multistate Tax Commission

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Multistate Tax Commission for the year ended June 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of expenses for the year ended June 30, 2009, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Linton Shafer Warfield & Garrett, P.A.

November 6, 2009

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MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended
June 30, 2009

	Unappropriated and Appropriated Funds					Restricted Funds		
	General Expenses	Audit Program	Administrative Expenses	Training and Education	Total Unappropriated and Appropriated Funds	National Nexus Program	Total Restricted Funds	Total All Funds
Accounting	$ 10,500	$ -	$ 6,711	$ -	$ 17,211	$ -	$ -	$ 17,211
Bonds and insurance	-	-	18,442	-	18,442	-	-	18,442
Conferences and training schools	90,890	6,898	709	23,214	121,711	6,833	6,833	128,544
Depreciation and amortization	-	18,197	74,586	-	92,783	5,398	5,398	98,181
Bond amortization	428	855	-	-	1,283	-	-	1,283
Employee benefits	137,165	465,332	171,363	19,725	793,585	67,482	67,482	861,067
Miscellaneous	2,970	4,458	3,841	2,354	13,623	1,532	1,532	15,155
Consumable supplies	6,781	12,192	16,979	6,292	42,244	5,607	5,607	47,851
Postage	3,502	11,618	7,834	5,454	28,408	6,169	6,169	34,577
Printing and duplicating	2,150	3,254	6,536	12,158	24,098	24	24	24,122
Professional services	144,472	219	34,379	10,810	189,880	243,055	243,055	432,935
Publications and electronic resources	3,626	11,467	17,206	-	32,299	-	-	32,299
Recruitment	-	2,450	-	-	2,450	4,045	4,045	6,495
Rent	33,967	85,558	149,931	412	269,868	104,856	104,856	374,724
Repairs and maintenance	475	2,158	6,079	-	8,712	460	460	9,172
Retirement plan	83,016	226,316	70,329	12,239	391,900	29,419	29,419	421,319
Salaries	696,218	1,834,205	617,135	99,769	3,247,327	235,888	235,888	3,483,215
Software licenses	-	1,161	18,142	-	19,303	1,680	1,680	20,983
Staff training	1,312	2,325	6,323	699	10,659	690	690	11,349
Subscriptions, publications, dues	21,544	14,114	3,253	627	39,538	3,679	3,679	43,217
Telephone	16,966	23,793	11,391	1,181	53,331	3,637	3,637	56,968
Travel	76,149	149,665	23,355	33,389	282,558	9,010	9,010	291,568
Allocation of administrative expenses	342,782	735,426	(1,264,524)	-	(186,316)	186,316	186,316	-
Total Expenses	$ 1,674,913	$ 3,611,661	$ -	$ 228,323	$ 5,514,897	$ 915,780	$ 915,780	$ 6,430,677