
Multistate Tax Commission

**Financial Statements, Supplementary
Information and Report
of Independent Certified
Public Accountants**

**For the Years Ended
June 30, 2017 and 2016**

LSWG

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

**Multistate Tax Commission
Table of Contents
June 30, 2017 and 2016**

	<u>Page</u>
Report of Independent Certified Public Accountants	1-2
Financial Statements	
Balance Sheets	3-4
Statements of Revenue and Expenses and Changes in Fund Balance - Unappropriated Funds	5-6
Statements of Changes in Fund Balance – Appropriated Funds	7
Statements of Changes in Fund Balance – Restricted Funds	8
Statements of Cash Flows	9
Notes to Financial Statements	10-15
Supplementary Information	
Report of Independent Certified Public Accountants on Supplementary Information	16
Schedule of Expenses	17



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

Report of Independent Certified Public Accountants

To the Executive Committee of
Multistate Tax Commission

We have audited the accompanying financial statements of Multistate Tax Commission, which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of revenue and expenses and changes in fund balance; unappropriated funds, changes in fund balance; appropriated funds, changes in fund balance; restricted funds and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Multistate Tax Commission as of June 30, 2017 and 2016, and the changes in its fund balances and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Linton, Shafer Warfield & Garrett, P.A.

Rockville, Maryland
November 1, 2017

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION

Balance Sheets

June 30,

ASSETS

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 655,791	\$ 2,246,026
Accounts receivable	2,205	34,495
Accrued interest	14,223	18,073
Prepaid expenses	122,066	46,777
Total Current Assets	<u>794,285</u>	<u>2,345,371</u>
Property and Equipment - at Cost		
Office furniture and equipment	550,073	469,115
Leasehold improvements	210,618	212,722
Less: accumulated depreciation and amortization	<u>(596,140)</u>	<u>(554,103)</u>
Property and Equipment - Net	<u>164,551</u>	<u>127,734</u>
Other Assets		
Investments	4,961,542	3,424,640
Expense account advances	6,000	6,400
Deposits	5,304	5,484
Total Other Assets	<u>4,972,846</u>	<u>3,436,524</u>
TOTAL ASSETS	<u>\$ 5,931,682</u>	<u>\$ 5,909,629</u>

LIABILITIES

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Accounts payable	\$ 47,244	\$ 19,085
Accrued salaries and vacation pay	425,926	372,454
Unearned membership, program and registration fees	<u>20,440</u>	<u>151,371</u>
Total Current Liabilities	<u>493,610</u>	<u>542,910</u>
 TOTAL LIABILITIES	 <u>493,610</u>	 <u>542,910</u>
 Fund Balances		
Unappropriated	3,342,856	3,468,807
Appropriated	712,641	624,921
Restricted	<u>1,382,575</u>	<u>1,272,991</u>
Total Fund Balances	<u>5,438,072</u>	<u>5,366,719</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 5,931,682</u>	 <u>\$ 5,909,629</u>

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,

	<u>2017</u>	<u>2016</u>
Revenue - Unappropriated and Appropriated		
Membership assessments and program fees	\$ 5,973,697	\$ 5,619,890
Interest and dividends	128,382	138,658
Realized gain on investments	(45,881)	4,904
Unrealized gain (loss) on investments	(59,066)	18,611
Other income (loss)		
Training fees	64,560	171,579
SITAS fees	4,591	9,904
Conference fees	22,720	23,225
Loss on disposal of fixed assets	-	(12,690)
Total Revenue	<u>6,089,003</u>	<u>5,974,081</u>
Expenses - Unappropriated and Appropriated		
Auditing and payroll services	15,000	17,293
Business insurance	19,281	20,516
Conferences and training schools	116,249	98,806
Depreciation	50,631	41,106
Bond amortization	52,504	62,026
Employee benefits	845,880	837,469
Miscellaneous	36,604	29,046
Consumable and durable supplies	39,873	55,343
Postage	7,475	17,569
Printing and duplicating	7,490	13,496
Professional services	249,978	224,878
Publications and electronic resources	38,759	38,324
Recruitment	-	750
Rent	281,479	270,946
Repairs and maintenance	17,306	10,678
Retirement plan	440,498	417,365
Salaries	3,621,907	3,398,360
Software licenses	34,184	32,825
Staff training	26,099	13,264
Subscriptions, publications, dues	65,705	43,624
Unified communications	31,491	32,002
Travel	233,949	301,788
Allocation of administrative expenses	(105,108)	(108,648)
Total Expenses	<u>\$ 6,127,234</u>	<u>\$ 5,868,826</u>

(continued)

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

	<u>2017</u>	<u>2016</u>
Excess of Revenue Over (Under) Expenses	\$ (38,231)	\$ 105,255
Transfer (to) from Appropriated Fund Balance	<u>(87,720)</u>	<u>(12,500)</u>
Total Amount Transferred	<u>(87,720)</u>	<u>(12,500)</u>
 FUND BALANCE - Unappropriated - Beginning of Year	 <u>3,468,807</u>	 <u>3,376,052</u>
 FUND BALANCE - Unappropriated - End of Year	 <u>\$ 3,342,856</u>	 <u>\$ 3,468,807</u>

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

MULTISTATE TAX COMMISSION

Statements of Changes in Fund Balance

Appropriated Funds

For the Years Ended June 30, 2017 and 2016

	Equipment Reserve	Enterprise Automation Project	50th Anniversary Conference	Staff Development	Total
Fund Balance - June 30, 2015	\$ 56,706	\$ 555,715	\$ -	\$ -	\$ 612,421
Transfer from Unappropriated Fund Balance	12,500	-	-	-	12,500
Net Amount Transferred (To) From Unappropriated Fund Balance	12,500	-	-	-	12,500
Fund Balance - June 30, 2016	69,206	555,715	-	-	624,921
Transfer from Unappropriated Fund Balance	15,000	-	15,000	60,000	90,000
Transfer to Unappropriated Fund Balance	-	-	(718)	(1,562)	(2,280)
Net Amount Transferred (To) From Unappropriated Fund Balance	15,000	-	14,282	58,438	87,720
Fund Balance - June 30, 2017	\$ 84,206	\$ 555,715	\$ 14,282	\$ 58,438	\$ 712,641

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, 2017 and 2016

	<u>4R Project</u>	<u>Nexus Program</u>	<u>Total</u>
Fund Balance - June 30, 2015	\$ 42,694	\$ 1,090,867	\$ 1,133,561
Revenue	-	813,801	813,801
Expenses	<u>-</u>	<u>674,371</u>	<u>674,371</u>
Revenue Over (Under) Expenses	<u>-</u>	<u>139,430</u>	<u>139,430</u>
Fund Balance - June 30, 2016	42,694	1,230,297	1,272,991
Revenue	-	825,139	825,139
Expenses	<u>-</u>	<u>715,555</u>	<u>715,555</u>
Revenue Over (Under) Expenses	<u>-</u>	<u>109,584</u>	<u>109,584</u>
Fund Balance - June 30, 2017	<u>\$ 42,694</u>	<u>\$ 1,339,881</u>	<u>\$ 1,382,575</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	\$ 71,353	\$ 244,685
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	50,631	41,106
Bond amortization	52,504	62,026
Loss on disposal of property and equipment	-	12,690
Unrealized (gain) loss on investments	59,066	(18,611)
Realized (gain) loss on sale of investments	45,881	(4,904)
Changes in assets and liabilities		
Accounts receivable	32,290	(34,291)
Prepaid expenses and accrued interest	(71,439)	(14,149)
Expense account advances and deposits	580	(400)
Accounts payable	28,159	(11,700)
Accrued salaries and vacation pay	53,472	(6,295)
Unearned membership, program and registration fees	(130,931)	876
Net Cash Provided by Operating Activities	<u>191,566</u>	<u>271,033</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(87,448)	(21,829)
Proceeds from sale of property and equipment	-	200
Purchase of investments	(5,475,018)	(153,111)
Proceeds from sale of investments	<u>3,780,665</u>	<u>1,197,883</u>
Net Cash Provided by (Used in) Investing Activities	<u>(1,781,801)</u>	<u>1,023,143</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,590,235)	1,294,176
Cash and Cash Equivalents - Beginning of Year	<u>2,246,026</u>	<u>951,850</u>
Cash and Cash Equivalents - End of Year	<u>\$ 655,791</u>	<u>\$ 2,246,026</u>
Supplemental Disclosures		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>

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

Multistate Tax Commission
Notes to Financial Statements
June 30, 2017 and 2016

1. Summary of Significant Accounting Policies

The Multistate Tax Commission (the Commission) was organized in 1967. It was established by the Multistate Tax Compact, which became effective August 4, 1967. The Commission is an intergovernmental state tax agency working on behalf of states and taxpayers to administer, equitable and efficiently, tax laws that apply to multistate and multinational enterprises.

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

Property and equipment are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of one year or more. All property and equipment is stated at cost and depreciated using straight-line basis based upon estimated useful lives as follows: Leasehold Improvements - 5 years and 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.

Unearned Membership, Program and Registration Fees

Membership assessments and program fees are due from the respective states on July 1st of each year (unless other specific arrangements are made with a State) and cover the following twelve-month period. Membership assessments and program fees 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, 2017 and 2016

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.

Fair Value

Financial Accounting Standards Board (FASB) Codification Standards defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements and establish a hierarchy for valuation inputs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- 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.
- 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.

Multistate Tax Commission
Notes to Financial Statements
June 30, 2017 and 2016

2. Defined Contribution 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 expense relating to the defined contribution plan for the years ended June 30, 2017 and 2016 was \$478,738 and \$448,491, respectively.

3. Commitments

The Commission rents its office facilities in Washington, D.C., and Illinois under lease agreements with terms expiring on various dates through July 31, 2020. These leases provide for the following minimum annual base rentals exclusive of utility charges and certain escalation charges:

<u>Fiscal Year Ended:</u>	<u>Minimum Annual Payment</u>
2018	\$ 369,258
2019	377,770
2020	235,637
2021	2,424
2022	-

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, 2017 and 2016 was \$420,986 and \$416,689, respectively.

4. Appropriated Fund Balances

The Commission's Executive Committee authorized the Enterprise Automation Project fund in the amount of \$73,000 during the year ended June 30, 1997. An additional \$882,218 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. As of June 30, 2017 and 2016 the Enterprise Automation Project fund balance was \$555,715.

Multistate Tax Commission
Notes to Financial Statements
June 30, 2017 and 2016

4. Appropriated Fund Balances (continued)

The Commission's Executive Committee authorized the Equipment Reserve fund in the amount of \$17,500 during the year ended June 30, 2010. An additional \$105,000 has been authorized in subsequent years. The purpose of this fund is to provide support for purchases of computer equipment for the Commission's audit program and information technology department. As of June 30, 2017 and 2016, the Equipment Reserve fund balances were \$84,206 and \$69,206, respectively.

The Commission's Executive Committee authorized the 50th Anniversary Conference fund in the amount of \$15,000 during the year ended June 30, 2017. The purpose of the fund is to provide additional support for the Commission's 50th anniversary conference during August of 2017. As of June 30, 2017, the 50th Anniversary Conference fund balances was \$14,282.

The Commission's Executive Committee authorized the Staff Development fund in the amount of \$60,000 during the year ended June 30, 2017. The purpose of the fund is to provide the financial resources for a two-day staff development meeting to be held in August 2017. As of June 30, 2017, the Staff Development fund balances was \$58,438.

5. Restricted Fund Balances

During the year ended June 30, 1988, the 4R Project 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. As of June 30, 2017 and 2016, the 4R Project fund balance was \$42,694.

During the year ended June 30, 1992, 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. As of June 30, 2017 and 2016, the National Nexus program fund balances were \$1,339,881 and \$1,230,297, respectively.

Multistate Tax Commission
Notes to Financial Statements
June 30, 2017 and 2016

6. 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 trustee 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, and the plan provides approximately fifteen investment options or a combination thereof. The participants make the choice of the investment option(s).

7. Investments

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

	Cost 2017	Market 2017	Cost 2016	Market 2016
Investments				
Mutual funds	\$ 2,452,560	\$ 2,442,300	\$ 1,455,032	\$ 1,488,053
Money market funds	6,453	6,453	15,564	15,564
Corporate bonds	212,772	212,545	287,707	290,146
Commercial paper	979,293	979,157	-	-
US Government and Agency securities	1,320,842	1,321,087	1,617,931	1,630,877
Total Investments	<u>\$ 4,971,920</u>	<u>\$ 4,961,542</u>	<u>\$ 3,376,234</u>	<u>\$ 3,424,640</u>

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. For the years ended June 30, 2017 and 2016, the Commission paid investment fees of \$15,847 and \$21,789, respectively.

Multistate Tax Commission
Notes to Financial Statements
June 30, 2017 and 2016

8. 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.

9. 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.

10. Concentration of Credit Risk

Cash held by the Commission in bank accounts may at times exceed the Federal Deposit Insurance Corporation (FDIC) coverage limit. Management believes the Commission is not exposed to any significant credit risk related to cash.

11. Subsequent Events

Management has evaluated subsequent events through November 1, 2017, the date that the financial statements were available to be issued. There were no significant events to report.

SUPPLEMENTARY INFORMATION



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

**Report of Independent Certified Public Accountants
on Supplementary Information**

To the Executive Committee of
Multistate Tax Commission

We have audited the financial statements of Multistate Tax Commission as of and for the year ended June 30, 2017, and our report thereon dated November 1, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.

The schedule of expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Linton, Shafer Warfield & Garrett, P.A.

Rockville, Maryland
November 1, 2017

MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended
June 30, 2017

	Unappropriated and Appropriated Funds				Restricted Funds			Total All Funds
	General Expenses	Audit Program	Administrative Expenses	Training and Education	Unappropriated and Appropriated Funds	National Nexus Program	Total Restricted Funds	
Auditing and payroll services	\$ 12,500	-	\$ 2,500	-	\$ 15,000	\$ -	\$ -	\$ 15,000
Business insurance	-	-	19,281	-	19,281	-	-	19,281
Conferences and training schools	93,921	13,113	910	8,305	116,249	13,193	13,193	129,442
Depreciation	-	11,160	39,471	-	50,631	-	-	50,631
Bond amortization	52,504	-	-	-	52,504	-	-	52,504
Employee benefits	157,590	576,286	105,637	6,367	845,880	57,964	57,964	903,844
Miscellaneous	1,449	14,321	14,034	6,800	36,604	4,974	4,974	41,578
Consumable and durable supplies	13,476	9,614	16,602	181	39,873	763	763	40,636
Postage	1,816	2,606	2,644	409	7,475	7,235	7,235	14,710
Printing and duplicating	3,188	534	221	3,547	7,490	133	133	7,623
Professional services	172,384	-	72,894	4,700	249,978	-	-	249,978
Publications and electronic resources	1,030	23,551	14,178	-	38,759	-	-	38,759
Rent	99,652	61,137	120,690	-	281,479	139,507	139,507	420,986
Repairs and maintenance	-	4,769	12,537	-	17,306	21	21	17,327
Retirement plan	87,661	297,252	53,041	2,544	440,498	38,240	38,240	478,738
Salaries	739,834	2,405,829	450,500	25,744	3,621,907	326,637	326,637	3,948,544
Software licenses	628	-	33,556	-	34,184	-	-	34,184
Staff training	13,266	3,755	9,078	-	26,099	1,494	1,494	27,593
Subscriptions, publications, dues	50,538	12,127	2,245	795	65,705	9,396	9,396	75,101
Unified communications	10,419	14,516	6,556	-	31,491	3,707	3,707	35,198
Travel	66,827	140,440	15,557	11,125	233,949	7,183	7,183	241,132
Allocation of administrative expenses	270,635	616,389	(992,132)	-	(105,108)	105,108	105,108	-
Total Expenses	\$ 1,849,318	\$ 4,207,399	\$ -	\$ 70,517	\$ 6,127,234	\$ 715,555	\$ 715,555	\$ 6,842,789

The accompanying notes are an integral part of this schedule.

FREDERICK • ROCKVILLE

www.lswgcpa.com
