MULTISTATE TAX COMMISSION

Financial Statements, Supplementary Information and Independent Auditor's Report

For the Years Ended June 30, 2018 and 2017

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

MULTISTATE TAX COMMISSION
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June 30, 2018 and 2017

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Independent Auditor's Report

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, 2018 and 2017, 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.

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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, 2018 and 2017, 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
October 26, 2018

MULTISTATE TAX COMMISSION
Balance Sheets
June 30,

ASSETS

	2018	2017
Current Assets		
Cash and cash equivalents	$ 1,009,312	$ 655,791
Accounts receivable	1,445	2,205
Accrued interest	3,669	14,223
Prepaid expenses	215,090	122,066
Total Current Assets	1,229,516	794,285
Property and Equipment - at Cost		
Office furniture and equipment	632,744	550,073
Leasehold improvements	228,572	210,618
Less: accumulated depreciation and amortization	(625,148)	(596,140)
Property and Equipment - Net	236,168	164,551
Other Assets		
Investments	4,856,118	4,961,542
Expense account advances	6,000	6,000
Deposits	2,200	5,304
Total Other Assets	4,864,318	4,972,846
TOTAL ASSETS	$ 6,330,002	$ 5,931,682

LIABILITIES

	2018	2017
Current Liabilities		
Accounts payable	$ 36,891	$ 47,244
Accrued salaries and vacation pay	447,386	425,926
Unearned membership, program and registration fees	205,705	20,440
Total Current Liabilities	689,982	493,610
TOTAL LIABILITIES	689,982	493,610
Fund Balances		
Unappropriated	3,662,485	3,342,856
Appropriated	654,921	712,641
Restricted	1,322,614	1,382,575
Total Fund Balances	5,640,020	5,438,072
TOTAL LIABILITIES AND FUND BALANCES	$ 6,330,002	$ 5,931,682

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,

	2018	2017
Revenue - Unappropriated and Appropriated		
Membership assessments and program fees	$ 6,210,240	$ 5,973,697
Interest and dividends	121,586	128,382
Realized gain on investments	-	(45,881)
Unrealized gain (loss) on investments	(40,358)	(59,066)
Other income (loss)		
Training fees	67,603	64,560
SITAS fees	-	4,591
Conference fees	27,140	22,720
Miscellaneous	3,062	-
Total Revenue	6,389,273	6,089,003
Expenses - Unappropriated and Appropriated		
Auditing and payroll services	17,071	15,000
Business insurance	13,921	19,281
Conferences and training schools	149,819	116,249
Depreciation	71,107	50,631
Bond amortization	27,557	52,504
Employee benefits	790,615	789,884
Payoll taxes	71,270	55,996
Miscellaneous	13,953	36,604
Consumable and durable supplies	38,349	39,873
Postage	8,591	7,475
Printing and duplicating	9,136	7,490
Professional services	129,206	249,978
Internet access	40,912	38,759
Rent	271,404	281,479
Repairs and maintenance	12,504	17,306
Defined contribution plans	436,252	440,498
Salaries	3,711,702	3,621,907
Software licenses	32,961	34,184
Staff training	83,889	26,099
Subscriptions, publications, dues	74,203	65,705
Telephone	44,705	31,491
Travel	221,193	233,949
Allocation of administrative expenses	(142,956)	(105,108)
Total Expenses	$ 6,127,364	$ 6,127,234

(continued)

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

	2018	2017
Excess of Revenue Over (Under) Expenses	$ 261,909	$ (38,231)
Transfer (to) from Appropriated Fund Balance	57,720	(87,720)
Total Amount Transferred	57,720	(87,720)
FUND BALANCE - Unappropriated - Beginning of Year	3,342,856	3,468,807
FUND BALANCE - Unappropriated - End of Year	$ 3,662,485	$ 3,342,856

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, 2018 and 2017

	Equipment Reserve	Enterprise Automation Project	50th Anniversary Conference	Staff Development	Total
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
Transfer from Unappropriated Fund Balance	15,000	-	-	-	15,000
Transfer to Unappropriated Fund Balance	-	-	(14,282)	(58,438)	(72,720)
Net Amount Transferred (To) From Unappropriated Fund Balance	15,000	-	(14,282)	(58,438)	(57,720)
Fund Balance - June 30, 2018	$ 99,206	$ 555,715	$ -	$ -	$ 654,921

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, 2018 and 2017

	4R Project	Nexus Program	Total
Fund Balance - June 30, 2016	$ 42,694	$ 1,230,297	$ 1,272,991
Revenue	-	825,139	825,139
Expenses	-	715,555	715,555
Revenue Over (Under) Expenses	-	109,584	109,584
Fund Balance - June 30, 2017	42,694	1,339,881	1,382,575
Revenue	-	825,533	825,533
Expenses	-	842,800	842,800
Revenue Over (Under) Expenses	-	(17,267)	(17,267)
Restricted funds released	(42,694)	-	(42,694)
Fund Balance - June 30, 2018	$ -	$ 1,322,614	$ 1,322,614

The accompanying notes are an integral part of these statements.

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

	2018	2017
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	$ 244,642	$ 71,353
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	71,107	50,631
Bond amortization	27,557	52,504
Restricted funds released	(42,694)	-
Unrealized (gain) loss on investments	40,358	59,066
Realized (gain) loss on sale of investments	-	45,881
Changes in assets and liabilities		
Accounts receivable	760	32,290
Prepaid expenses and accrued interest	(82,470)	(71,439)
Expense account advances and deposits	3,104	580
Accounts payable	(10,353)	28,159
Accrued salaries and vacation pay	21,460	53,472
Unearned membership, program and registration fees	185,265	(130,931)
Net Cash Provided by Operating Activities	458,736	191,566
Cash Flows From Investing Activities		
Purchase of property and equipment	(142,723)	(87,448)
Purchase of investments	(1,298,742)	(5,475,018)
Proceeds from sale of investments	1,336,250	3,780,665
Net Cash (Used in) Investing Activities	(105,215)	(1,781,801)
Net Increase (Decrease) in Cash and Cash Equivalents	353,521	(1,590,235)
Cash and Cash Equivalents - Beginning of Year	655,791	2,246,026
Cash and Cash Equivalents - End of Year	$ 1,009,312	$ 655,791
Supplemental Disclosures		
Income taxes paid	$ -	$ -
Interest paid	$ -	$ -

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

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2018 and 2017

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 lst 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.

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.

2. Defined Contribution Plans

Effective June 30, 1986, the Commission adopted the Multistate Tax Commission 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. Effective January 1, 2018, this Plan was closed to any newly hired employees.

On January 1, 2018 the Commission adopted the Multistate Tax Commission Social Security Participant Defined Contribution Plan, coincident with the Commission's participation in Social Security. To participate in this plan, participants must be hired after January 1, 2018 and work at least 1000 hours per year. The Plan also includes certain employees from the Commission staff who opted to be covered by Social Security during an election process held in late 2017.The Plan is to be funded 6.2% of each participant's individual annual salary.

The total expense relating to the defined contribution plans for the years ended June 30, 2018 and 2017 was $480,787 and $478,738, 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 December 31, 2026. In March 2018 the Commission amended its Washington DC lease to increase the office space and extend the lease to December 31, 2026. This lease is expected to begin December 1, 2018. These leases provide for the following minimum annual base rentals exclusive of utility charges and certain escalation charges:

Fiscal Year Ended:	Minimum Annual Payment
2019	$ 404,533
2020	427,085
2021	401,060
2022	398,636
2023	398,636

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, 2018 and 2017 was $392,352 and $420,986, 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, 2018 and 2017 the Enterprise Automation Project fund balance was $555,715.

The Commission's Executive Committee authorized the Equipment Reserve fund in the amount of $17,500 during the year ended June 30, 2009. An additional $110,000 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, 2018 and 2017, the Equipment Reserve fund balances were $99,206 and $84,206, 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 2018. As of June 30, 2018 and 2017, the 50th Anniversary Conference fund balances were $0 and $14,282, respectively.

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 2018. As of June 30, 2018 and 2017, the Staff Development fund balances were $0 and $58,438, respectively.

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. During fiscal year 2018, the Commission approved closing this fund and gave the State members who contributed to the fund a credit on the Member dues for fiscal year 2018. As of June 30, 2018 and 2017, the 4R Project fund balance was $0 and $42,694, respectively.

5. Restricted Fund Balances (continued)

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, 2018 and 2017, the National Nexus program fund balances were $1,322,614 and $1,339,881, respectively.

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 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, 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 2018	Market 2018	Cost 2017	Market 2017
Investments				
Mutual funds	$ 4,678,991	$ 4,629,656	$ 2,452,560	$ 2,442,300
Money market funds	6,669	6,669	6,453	6,453
Corporate bonds	107,547	106,368	212,772	212,545
Commercial paper	-	-	979,293	979,157
US Government and Agency securities	113,509	113,425	1,320,842	1,321,087
Total Investments	$ 4,906,716	$ 4,856,118	$ 4,971,920	$ 4,961,542

7. Investments (continued)

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, 2018 and 2017, the Commission paid investment fees of $9,250 and $15,847, respectively.

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 U.S. 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 October 26, 2018, the date that the financial statements were available to be issued. There were no significant events to report.

SUPPLEMENTARY INFORMATION

Independent Auditor's Report
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, 2018, and our report thereon dated October 26, 2018, 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
October 26, 2018

MULTISTATE TAX COMMISSION

Schedule of Expenses

For the Year Ended

June 30, 2018

	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
Auditing and payroll services	$ 12,500	$ -	$ 4,571	$ -	$ 17,071	$ -	$ -	$ 17,071
Business insurance	-	-	13,921	-	13,921	-	-	13,921
Conferences and training schools	125,489	12,752	3,227	8,351	149,819	12,636	12,636	162,455
Depreciation	-	11,160	59,947	-	71,107	-	-	71,107
Bond amortization	27,557	-	-	-	27,557	-	-	27,557
Employee benefits	116,770	566,784	100,604	6,457	790,615	62,272	62,272	852,887
Payroll taxes	11,181	48,100	11,548	441	71,270	6,261	6,261	77,531
Miscellaneous	1,787	3,604	6,391	2,171	13,953	1,186	1,186	15,139
Consumable and durable supplies	5,811	7,259	23,525	1,754	38,349	2,555	2,555	40,904
Postage	3,425	2,481	1,958	727	8,591	8,095	8,095	16,686
Printing and duplicating	4,936	304	(10)	3,906	9,136	70	70	9,206
Professional services	2,250	-	124,456	2,500	129,206	-	-	129,206
Internet access	2,494	24,050	14,368	-	40,912	-	-	40,912
Rent	84,663	28,202	158,539	-	271,404	120,948	120,948	392,352
Repairs and maintenance	-	1,002	11,502	-	12,504	1,519	1,519	14,023
Defined contribution plans	86,618	291,833	54,349	3,452	436,252	44,535	44,535	480,787
Salaries	699,057	2,494,618	487,588	30,439	3,711,702	423,000	423,000	4,134,702
Software licenses	235	-	32,726	-	32,961	-	-	32,961
Staff training	68,342	1,148	14,399	-	83,889	1,400	1,400	85,289
Subscriptions, publications, dues	56,092	16,251	1,065	795	74,203	6,208	6,208	80,411
Telephone	14,217	21,438	9,050	-	44,705	5,181	5,181	49,886
Travel	77,196	112,704	22,498	8,795	221,193	3,978	3,978	225,171
Allocation of administrative expenses	271,250	742,016	(1,156,222)	-	(142,956)	142,956	142,956	-
Total Expenses	$ 1,671,870	$ 4,385,706	$ -	$ 69,788	$ 6,127,364	$ 842,800	$ 842,800	$ 6,970,164

The accompanying notes are an integral part of this schedule.