
MULTISTATE TAX COMMISSION

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

**For the Years Ended
June 30, 2016 and 2015**

LSWG

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

MULTISTATE TAX COMMISSION
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June 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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

Rockville, Maryland
November 28, 2016

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION

Balance Sheets

June 30,

ASSETS

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 2,246,026	\$ 951,850
Accounts receivable	34,495	204
Accrued interest	18,073	22,180
Prepaid expenses	46,777	28,521
Total Current Assets	<u>2,345,371</u>	<u>1,002,755</u>
Property and Equipment - at Cost		
Office furniture and equipment	469,115	546,106
Leasehold improvements	212,722	236,147
Less: accumulated depreciation and amortization	<u>(554,103)</u>	<u>(622,352)</u>
Property and Equipment - Net	<u>127,734</u>	<u>159,901</u>
Other Assets		
Investments	3,424,640	4,507,923
Expense account advances	6,400	6,000
Deposits	5,484	5,484
Total Other Assets	<u>3,436,524</u>	<u>4,519,407</u>
TOTAL ASSETS	<u>\$ 5,909,629</u>	<u>\$ 5,682,063</u>

LIABILITIES

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable	\$ 19,085	\$ 30,785
Accrued salaries and vacation pay	372,454	378,749
Unearned membership, program and registration fees	<u>151,371</u>	<u>150,495</u>
Total Current Liabilities	<u>542,910</u>	<u>560,029</u>
 TOTAL LIABILITIES	 <u>542,910</u>	 <u>560,029</u>
 Fund Balances		
Unappropriated	3,468,807	3,376,052
Appropriated	624,921	612,421
Restricted	<u>1,272,991</u>	<u>1,133,561</u>
Total Fund Balances	<u>5,366,719</u>	<u>5,122,034</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 5,909,629</u>	 <u>\$ 5,682,063</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,

	2016	2015
Revenue - Unappropriated and Appropriated		
Membership assessments and program fees	\$ 5,619,890	\$ 5,808,700
Interest and dividends	138,658	146,743
Realized gain on investments	4,904	2,942
Unrealized gain (loss) on investments	18,611	(24,901)
Other income (loss)		
Training fees	171,579	286,926
SITAS fees	9,904	55,884
Conference fees	23,225	20,085
Loss on disposal of fixed assets	(12,690)	(4,777)
Total Revenue	5,974,081	6,291,602
Expenses - Unappropriated and Appropriated		
Auditing and payroll services	17,293	17,143
Business insurance	20,516	21,574
Conferences and training schools	98,806	152,021
Depreciation	41,106	72,086
Bond amortization	62,026	76,010
Employee benefits	837,469	788,234
Miscellaneous	29,046	26,759
Consumable and durable supplies	55,343	74,586
Postage	17,569	19,485
Printing and duplicating	13,496	25,918
Professional services	224,878	307,438
Publications and electronic resources	38,324	43,592
Recruitment	750	1,500
Rent	270,946	233,804
Repairs and maintenance	10,678	16,529
Retirement plan	417,365	438,415
Salaries	3,398,360	3,562,694
Software licenses	32,825	7,014
Staff training	13,264	15,474
Subscriptions, publications, dues	43,624	46,478
Unified communications	32,002	31,933
Travel	301,788	372,798
Allocation of administrative expenses	(108,648)	(143,127)
Total Expenses	\$ 5,868,826	\$ 6,208,358

(continued)

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

	2016	2015
Excess of Revenue Over (Under) Expenses	<u>\$ 105,255</u>	<u>\$ 83,244</u>
Transfer (to) from Appropriated Fund Balance	<u>(12,500)</u>	<u>(12,500)</u>
Total Amount Transferred	<u>(12,500)</u>	<u>(12,500)</u>
 FUND BALANCE - Unappropriated -		
Beginning of Year	<u>3,376,052</u>	<u>3,305,308</u>
 FUND BALANCE - Unappropriated -		
End of Year	<u><u>\$ 3,468,807</u></u>	<u><u>\$ 3,376,052</u></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, 2016 and 2015

	Equipment Reserve	Enterprise Automation Project	Total
Fund Balance - June 30, 2014	\$ 44,206	\$ 555,715	\$ 599,921
Transfer (to) from Unappropriated Fund Balance	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Net Amount Transferred (To) From From Unappropriated Fund Balance	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Fund Balance - June 30, 2015	56,706	555,715	612,421
Transfer (to) from Unappropriated Fund Balance	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Net Amount Transferred (To) From From Unappropriated Fund Balance	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Fund Balance - June 30, 2016	<u>\$ 69,206</u>	<u>\$ 555,715</u>	<u>\$ 624,921</u>

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, 2016 and 2015

	4R Project	Nexus Program	Total
Fund Balance - June 30, 2014	\$ 42,694	\$ 1,127,948	\$ 1,170,642
Revenue	-	797,921	797,921
Expenses	<u>-</u>	<u>835,002</u>	<u>835,002</u>
Revenue Over (Under) Expenses	<u>-</u>	<u>(37,081)</u>	<u>(37,081)</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	<u>\$ 42,694</u>	<u>\$ 1,230,297</u>	<u>\$ 1,272,991</u>

The accompanying notes are an integral part of these statements.

MULTISTATE TAX COMMISSION
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	\$ 244,685	\$ 46,163
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	41,106	75,575
Bond amortization	62,026	76,010
Loss on disposal of property and equipment	12,690	11,537
Unrealized (gain) loss on investments	(18,611)	24,901
Realized (gain) loss on sale of investments	(4,904)	(2,942)
Changes in assets and liabilities		
Accounts receivable	(34,291)	(204)
Prepaid expenses and accrued interest	(14,149)	(4,210)
Expense account advances and deposits	(400)	2,281
Accounts payable	(11,700)	(26,530)
Accrued salaries and vacation pay	(6,295)	17,285
Unearned membership, program and registration fees	876	(105,558)
Net Cash Provided by Operating Activities	271,033	114,308
Cash Flows From Investing Activities		
Purchase of property and equipment	(21,829)	(70,758)
Proceeds from sale of property and equipment	200	-
Purchase of investments	(137,547)	(151,559)
Proceeds from sale of investments	1,197,883	51,467
Net Cash Provided by (Used in) Investing Activities	1,038,707	(170,850)
Net Increase (Decrease) in Cash and Cash Equivalents	1,309,740	(56,542)
Cash and Cash Equivalents - Beginning of Year	951,850	1,008,392
Cash and Cash Equivalents - End of Year	\$ 2,261,590	\$ 951,850
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, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015 was \$448,491 and \$480,239, 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 July 30, 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>
2017	\$ 363,726
2018	369,258
2019	377,770
2020	238,061
2021	-

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, 2016 and 2015 was \$416,689 and \$386,126, 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, 2016 and 2015 the Enterprise Automation Project fund balance was \$555,715.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2016 and 2015

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, 2009. An additional \$92,500 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, 2016 and 2015, the Equipment Reserve fund balances were \$69,206 and \$56,706, 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. As of June 30, 2016 and 2015, the 4R Project fund balances was \$42,694.

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. As of June 30, 2016 and 2015, the National Nexus program fund balances were \$1,230,297 and \$1,090,867, 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).

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2016 and 2015

7. Investments

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

	Cost 2016	Market 2016	Cost 2015	Market 2015
Investments				
Mutual funds	\$ 1,455,032	\$ 1,488,053	\$ 1,463,859	\$ 1,417,088
Money market funds	15,564	15,564	52,143	52,143
Corporate bonds	287,707	290,146	298,707	298,502
Corporate stock	-	-	276,299	332,834
US Government and Agency securities	<u>1,617,931</u>	<u>1,630,877</u>	<u>2,386,638</u>	<u>2,407,356</u>
Total Investments	<u>\$ 3,376,234</u>	<u>\$ 3,424,640</u>	<u>\$ 4,477,646</u>	<u>\$ 4,507,923</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, 2016 and 2015, the Commission paid investment fees of \$21,789 and \$24,667, 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 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.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2016 and 2015

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 28, 2016, 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, 2016, and our report thereon dated November 28, 2016, 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

Rockville, Maryland
November 28, 2016

MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended
June 30, 2016

	Unappropriated and Appropriated Funds				Restricted Funds			
	General Expenses	Audit Program	Administrative Expenses	Training and Education	Unappropriated and Appropriated Funds	National Nexus Program	Total Restricted Funds	Total All Funds
Auditing and payroll services	\$ 12,000	\$ -	\$ 5,293	\$ -	\$ -	\$ -	\$ -	\$ 17,293
Business insurance	-	-	20,516	-	20,516	-	-	20,516
Conferences and training schools	68,148	9,880	1,501	19,277	98,806	12,170	12,170	110,976
Depreciation	-	15,418	25,688	-	41,106	-	-	41,106
Bond amortization	62,026	-	-	-	62,026	-	-	62,026
Employee benefits	135,806	553,633	127,934	20,096	837,469	63,045	63,045	900,514
Miscellaneous	809	5,672	19,531	3,034	29,046	3,627	3,627	32,673
Consumable and durable supplies	12,046	11,990	26,230	5,077	55,343	1,778	1,778	57,121
Postage	2,519	9,647	2,983	2,420	17,569	7,102	7,102	24,671
Printing and duplicating	2,616	2,193	36	8,651	13,496	-	-	13,496
Professional services	198,351	7,140	13,677	5,710	224,878	-	-	224,878
Publications and electronic resources	1,474	22,469	14,381	-	38,324	-	-	38,324
Recruitment	-	500	250	-	750	250	250	1,000
Rent	83,282	61,095	126,569	-	270,946	145,743	145,743	416,689
Repairs and maintenance	122	826	9,730	-	10,678	-	-	10,678
Retirement plan	72,787	271,743	63,789	9,046	417,365	31,126	31,126	448,491
Salaries	624,172	2,211,587	489,652	72,949	3,398,360	276,169	276,169	3,674,529
Software licenses	233	1,619	25,655	5,318	32,825	-	-	32,825
Staff training	4,220	2,060	6,134	850	13,264	835	835	14,099
Subscriptions, publications, dues	24,616	10,487	7,796	725	43,624	8,608	8,608	52,232
Unified communications	10,292	14,974	6,679	57	32,002	3,878	3,878	35,880
Travel	71,245	174,001	26,554	29,988	301,788	11,392	11,392	313,180
Allocation of administrative expenses	264,427	647,503	(1,020,578)	-	(108,648)	108,648	108,648	-
Total Expenses	\$ 1,651,191	\$ 4,034,437	\$ -	\$ 183,198	\$ 5,868,826	\$ 674,371	\$ 674,371	\$ 6,543,197

The accompanying notes are an integral part of this schedule.

FREDERICK • ROCKVILLE

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