
MULTISTATE TAX COMMISSION

**Financial Statements,
Supplementary Information and
Independent Auditor's Report**

**For the Years Ended
June 30, 2020 and 2019**

LSWG

**CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS**

MULTISTATE TAX COMMISSION
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For the Years Ended June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 27, 2020

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION

Balance Sheets

June 30,

ASSETS

	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and cash equivalents	\$ 590,154	\$ 1,396,280
Accounts receivable	1,550	24,695
Prepaid expenses	173,013	144,456
Total Current Assets	<u>764,717</u>	<u>1,565,431</u>
Property and Equipment - at Cost		
Office furniture and equipment	601,929	593,813
Leasehold improvements	429,396	429,396
Less: accumulated depreciation and amortization	<u>(654,287)</u>	<u>(631,248)</u>
Property and Equipment - Net	<u>377,038</u>	<u>391,961</u>
Other Assets		
Investments	6,138,083	4,785,643
Expense account advances	5,600	5,600
Deposits	2,200	2,200
Total Other Assets	<u>6,145,883</u>	<u>4,793,443</u>
TOTAL ASSETS	<u>\$ 7,287,638</u>	<u>\$ 6,750,835</u>

Continued

MULTISTATE TAX COMMISSION

Balance Sheets

June 30,

LIABILITIES

	<u>2020</u>	<u>2019</u>
Current Liabilities		
Accounts payable and accrued expenses	\$ 161,887	\$ 67,665
Accrued salaries and vacation pay	493,793	446,325
Unearned membership, program and registration fees	185,602	232,183
Deferred lease liability - current portion	<u>23,238</u>	<u>23,238</u>
Total Current Liabilities	<u>864,520</u>	<u>769,411</u>
Long-Term Liabilities		
Deferred lease liability - net of current portion	<u>127,807</u>	<u>151,044</u>
Total Long-Term Liabilities	<u>127,807</u>	<u>151,044</u>
TOTAL LIABILITIES	<u>992,327</u>	<u>920,455</u>
Fund Balances		
Unappropriated	4,331,653	3,854,717
Appropriated	675,921	669,921
Restricted	<u>1,287,737</u>	<u>1,305,742</u>
Total Fund Balances	<u>6,295,311</u>	<u>5,830,380</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,287,638</u>	<u>\$ 6,750,835</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>2020</u>	<u>2019</u>
Revenue - Unappropriated and Appropriated		
Membership assessments and program fees	\$ 6,544,101	\$ 6,376,665
Interest and dividends	130,561	162,194
Realized loss on sale of investments	-	(808)
Unrealized gain on investments	74,286	49,810
Other income (loss)		
Training fees	126,010	152,455
Conference fees	26,355	35,290
Gain (loss) on sale of equipment	(1,418)	804
Miscellaneous	-	16
Total Revenue	<u>6,899,895</u>	<u>6,776,426</u>
Expenses - Unappropriated and Appropriated		
Advertising	250	-
Auditing and payroll services	19,077	17,660
Business insurance	17,453	17,254
Conferences and training schools	116,236	210,880
Depreciation	98,750	97,058
Bond amortization	-	2,808
Employee benefits	890,056	877,501
Payroll taxes	143,552	113,207
Miscellaneous	14,581	12,695
Consumable and durable supplies	48,864	50,417
Postage	9,488	6,729
Printing and duplicating	1,019	9,483
Professional services	97,826	92,842
Internet access	55,599	48,850
Rent	358,767	309,440
Repairs and maintenance	15,566	18,291
Defined contribution plans	406,068	423,522
Salaries	3,869,166	3,850,242
Software licenses	64,084	27,503
Staff training	9,174	25,914
Subscriptions, publications, dues	104,903	82,198
Telephone	46,103	42,850
Travel	180,028	360,216
Allocation of administrative expenses	(149,651)	(128,366)
Total Expenses	<u>\$ 6,416,959</u>	<u>\$ 6,569,194</u>

(continued)

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

	<u>2020</u>	<u>2019</u>
Excess of Revenue Over Expenses	\$ 482,936	\$ 207,232
Transfer (to) from Appropriated Fund Balance	<u>(6,000)</u>	<u>(15,000)</u>
Total Amount Transferred	<u>(6,000)</u>	<u>(15,000)</u>
FUND BALANCE - Unappropriated - Beginning of Year	<u>3,854,717</u>	<u>3,662,485</u>
FUND BALANCE - Unappropriated - End of Year	<u>\$ 4,331,653</u>	<u>\$ 3,854,717</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, 2020 and 2019

	Equipment Reserve	Enterprise Automation Project	Total
Fund Balance - June 30, 2018	\$ 99,206	\$ 555,715	\$ 654,921
Transfer from Unappropriated Fund Balance	15,000	-	15,000
Transfer to Unappropriated Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>
Net Amount Transferred (To) From Unappropriated Fund Balance	<u>15,000</u>	<u>-</u>	<u>15,000</u>
Fund Balance - June 30, 2019	<u>114,206</u>	<u>555,715</u>	<u>669,921</u>
Transfer from Unappropriated Fund Balance	6,000	-	6,000
Transfer to Unappropriated Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>
Net Amount Transferred (To) From Unappropriated Fund Balance	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Fund Balance - June 30, 2020	<u>\$ 120,206</u>	<u>\$ 555,715</u>	<u>\$ 675,921</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, 2020 and 2019

	National Nexus Program	Total
Fund Balance - June 30, 2018	\$ 1,322,614	\$ 1,322,614
Revenue	807,030	807,030
Expenses	<u>823,902</u>	<u>823,902</u>
Revenue Over (Under) Expenses	<u>(16,872)</u>	<u>(16,872)</u>
Fund Balance - June 30, 2019	1,305,742	1,305,742
Revenue	810,417	810,417
Expenses	<u>828,422</u>	<u>828,422</u>
Revenue Over (Under) Expenses	<u>(18,005)</u>	<u>(18,005)</u>
Fund Balance - June 30, 2020	<u>\$ 1,287,737</u>	<u>\$ 1,287,737</u>

The accompanying notes are an integral part of these statements.

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

	<u>2020</u>	<u>2019</u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	\$ 464,931	\$ 190,360
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	98,750	97,857
Bond amortization	-	2,808
Unrealized (gain) on investments	(74,286)	(49,810)
Realized loss on sale of investments	-	808
(Gain) loss on sale of equipment	1,418	(804)
Changes in assets and liabilities		
Accounts receivable	23,145	(23,250)
Prepaid expenses	(28,557)	74,303
Expense account advances and deposits	-	400
Accounts payable and accrued expenses	94,222	30,774
Accrued salaries and vacation pay	47,468	(1,061)
Deferred lease liability	(23,237)	174,282
Unearned membership, program and registration fees	(46,581)	26,478
Net Cash Provided by Operating Activities	<u>557,273</u>	<u>523,145</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(85,245)	(256,426)
Proceeds from sale of equipment	-	3,580
Purchase of investments	(1,288,154)	(115,706)
Proceeds from sale of investments	10,000	232,375
Net Cash (Used in) Investing Activities	<u>(1,363,399)</u>	<u>(136,177)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(806,126)	386,968
Cash and Cash Equivalents - Beginning of Year	<u>1,396,280</u>	<u>1,009,312</u>
Cash and Cash Equivalents - End of Year	<u>\$ 590,154</u>	<u>\$ 1,396,280</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, 2020 and 2019

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, equitably 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 the straight-line basis based upon estimated useful lives as follows: Leasehold Improvements – 5 to 7 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.

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.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition

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. Training program and conference fees are recognized as revenue when the event takes place. Training program and conference fees received in advance are unearned and considered deferred until the event takes place.

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, 2020 and 2019

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 1,000 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 at the rate of 6.2% of each participant's individual annual salary.

The total expense relating to the defined contribution plans for the years ended June 30, 2020 and 2019 was \$453,357 and \$469,119, 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 D.C. lease to increase the office space and extend the lease to December 31, 2026. In addition, the landlord provided the Commission with \$185,901 of tenant improvement allowance, which is accounted for in leasehold improvements and deferred lease liability on the balance sheet. 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>
2021	\$ 401,060
2022	398,636
2023	398,636
2024	398,636
2025	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, 2020 and 2019 was \$457,852 and \$428,642, respectively.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019, 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 \$116,000 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, 2020 and 2019, the Equipment Reserve fund balances were \$120,206 and \$114,206, respectively.

5. Restricted Fund Balances

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, 2020 and 2019, the National Nexus program fund balances were \$1,287,737 and \$1,305,742, 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. 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, 2020 and 2019

7. Investments

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

	Cost 2020	Market 2020	Cost 2019	Market 2019
Investments				
Mutual funds	\$ 4,056,667	\$ 4,128,792	\$ 2,547,160	\$ 2,544,999
Money market funds	<u>2,009,290</u>	<u>2,009,290</u>	<u>2,240,644</u>	<u>2,240,644</u>
Total Investments	<u>\$ 6,065,957</u>	<u>\$ 6,138,082</u>	<u>\$ 4,787,804</u>	<u>\$ 4,785,643</u>

The Commission invests in an investment portfolio that consists of a mutual fund and a money market fund. 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 could materially affect investment balances and the amounts reported in the financial statements. For the years ended June 30, 2020 and 2019, the Commission paid investment fees of \$0 and \$305, 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.

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2020 and 2019

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. The Commission maintains a money market account with an investment company that is not insured by FDIC. The balance of the money market account at June 30, 2020 and 2019 was \$0 and \$1,179,509, respectively.

11. Subsequent Events

Management has evaluated subsequent events through October 27, 2020, 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, 2020, and our report thereon dated October 27, 2020, 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 27, 2020

MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended June 30, 2020

	Unappropriated and Appropriated Funds				Total Unappropriated and Appropriated Funds	Restricted Funds		Total All Funds
	General Expenses	Audit Program	Administrative Expenses	Training and Education		National Nexus Program	Total Restricted Funds	
Advertising	\$ -	\$ 250	\$ -	\$ -	\$ 250	\$ -	\$ -	\$ 250
Auditing and payroll services	14,300	-	4,777	-	19,077	-	-	19,077
Business insurance	-	-	17,453	-	17,453	-	-	17,453
Conferences and training schools	64,540	6,407	2,849	42,440	116,236	10,304	10,304	126,540
Depreciation	-	-	98,750	-	98,750	-	-	98,750
Employee benefits	135,375	626,044	117,359	11,278	890,056	65,206	65,206	955,262
Payroll taxes	24,801	97,722	19,310	1,719	143,552	11,336	11,336	154,888
Miscellaneous	1,230	5,078	5,048	3,225	14,581	-	-	14,581
Consumable and durable supplies	2,714	8,631	35,703	1,816	48,864	513	513	49,377
Postage	2,162	2,938	3,908	480	9,488	6,958	6,958	16,446
Printing and duplicating	49	-	-	970	1,019	-	-	1,019
Professional services	-	-	97,826	-	97,826	-	-	97,826
Internet access	5,904	30,756	18,411	528	55,599	-	-	55,599
Rent	123,857	58,241	176,669	-	358,767	99,085	99,085	457,852
Repairs and maintenance	-	1,413	14,153	-	15,566	976	976	16,542
Defined contribution plans	75,807	265,820	59,132	5,309	406,068	47,289	47,289	453,357
Salaries	704,854	2,589,810	523,757	50,745	3,869,166	420,219	420,219	4,289,385
Software licenses	297	878	62,909	-	64,084	-	-	64,084
Staff training	4,413	3,966	795	-	9,174	1,363	1,363	10,537
Subscriptions, publications, dues	85,604	17,679	547	1,073	104,903	4,970	4,970	109,873
Telephone	15,954	21,383	8,766	-	46,103	4,616	4,616	50,719
Travel	60,242	80,877	14,752	24,157	180,028	5,936	5,936	185,964
Allocation of administrative expenses	291,486	841,737	(1,282,874)	-	(149,651)	149,651	149,651	-
Total Expenses	<u>\$ 1,613,589</u>	<u>\$ 4,659,630</u>	<u>\$ -</u>	<u>\$ 143,740</u>	<u>\$ 6,416,959</u>	<u>\$ 828,422</u>	<u>\$ 828,422</u>	<u>\$ 7,245,381</u>

The accompanying notes are an integral part of this schedule.

FREDERICK • ROCKVILLE

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