



To: Members, Executive Committee
From: Gregory S. Matson, Executive Director
Date: November 11, 2021
Subject: Governance Letter from LSWG – CPAs dated October 14, 2021

Clarifying Corrected and Uncorrected Misstatements (Page 2 of the Governance Letter)

- **The four material misstatements ranging from \$23,000 to \$73,000**

The Multistate Tax Commission prepares its annual budget and its internal financial statements on a cash basis. Thus, and as an example, on MTC's budget and internal financial statements: equipment is expensed when purchased and vacation pay is not accrued. However, for purposes of GAAP used on the audited financial statements various accrual adjustments and adjusting to market value are required. Thus, these types of "misstatements" are nothing more than a difference in accounting methods between the MTC's books and the audited financial statements. These types of "misstatements" occur every year.

- **The reclassification of General Membership Assessment, Audit Program fee, and Nexus Program fee COVID-19 10% refund/rebate totaling \$696,000**

At its July 15, 2020, meeting and during the height of the pandemic, the Executive Committee approved a COVID-19 10% fee credit to be applied against the MTC FY 2021 membership and program fees. This \$696,000 credit reduced the invoiced FY 2021 membership and Audit Program fees by \$615,000 and reduced the invoiced FY 2021 Nexus Program fees by \$81,000.

This credit, from the MTC's point of view, was a refund or rebate of fees accumulated over many years. Providing this credit was considered only to affect the balance sheet. There would be no effect on the current operations nor the FY 2021 income statement. Thus, actual membership and program fee revenue for FY 2021 would be the same as budgeted. On the internally generated financial statements of the MTC the \$615,000 fee credit (General Membership Assessment and Audit Program fees) was charged against the unappropriated fund balance and the \$81,000 fee credit (Nexus Program fees) was charged against the restricted fund balance.

MTC's external auditors consider these FY 2021 fee credits to be reductions in the fee revenue for FY 2021 and thus this credit passed through the audited income statements, however. Thus, the Statement of Revenue and Expenses (Unappropriated Funds) and the Statement of Changes in Fund Balance (Restricted Funds) both show deficits for FY 2021.

Whether the FY 2021 COVID-19 10% fee credit runs through the income statement or the balance sheet, the audited fund balances end at the same amounts on June 30, 2021. It is just that the pathways taken to get there that were different.