MULTISTATE TAX COMMISSION

Financial Statements, Supplementary Information and Independent Auditor's Report

For the Years Ended June 30, 2019 and 2018

LSWG

CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

MULTISTATE TAX COMMISSION
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June 30, 2019 and 2018

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, 2019 and 2018, 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.

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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, 2019 and 2018, 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 24, 2019

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION
Balance Sheets
June 30,

ASSETS

	2019	2018
Current Assets		
Cash and cash equivalents	$ 1,396,280	$ 1,009,312
Accounts receivable	24,695	1,445
Accrued interest	-	3,669
Prepaid expenses	144,456	215,090
Total Current Assets	1,565,431	1,229,516
Property and Equipment - at Cost		
Office furniture and equipment	593,813	632,744
Leasehold improvements	429,396	228,572
Less: accumulated depreciation and amortization	(631,248)	(625,148)
Property and Equipment - Net	391,961	236,168
Other Assets		
Investments	4,785,643	4,856,118
Expense account advances	5,600	6,000
Deposits	2,200	2,200
Total Other Assets	4,793,443	4,864,318
TOTAL ASSETS	$ 6,750,835	$ 6,330,002

LIABILITIES

		2019		2018
Current Liabilities				
Accounts payable	$	67,665	$	36,891
Accrued salaries and vacation pay		446,325		447,386
Unearned membership, program and registration fees		232,183		205,705
Deferred lease liability - current portion		23,238		-
Total Current Liabilities		769,411		689,982
Long-Term Liabilities				
Deferred lease liability - net of current portion		151,044		-
Total Long-Term Liabilities		151,044		-
TOTAL LIABILITIES		920,455		689,982
Fund Balances				
Unappropriated		3,854,717		3,662,485
Appropriated		669,921		654,921
Restricted		1,305,742		1,322,614
Total Fund Balances		5,830,380		5,640,020
TOTAL LIABILITIES AND FUND BALANCES	$	6,750,835	$	6,330,002

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,

	2019	2018
Revenue - Unappropriated and Appropriated		
Membership assessments and program fees	$ 6,376,665	$ 6,210,240
Interest and dividends	162,194	121,586
Realized loss on sale of investments	(808)	-
Unrealized gain (loss) on investments	49,810	(40,358)
Other income (loss)		
Training fees	152,455	67,603
Conference fees	35,290	27,140
Gain on sale of equipment	804	-
Miscellaneous	16	3,062
Total Revenue	6,776,426	6,389,273
Expenses - Unappropriated and Appropriated		
Auditing and payroll services	17,660	17,071
Business insurance	17,254	13,921
Conferences and training schools	210,880	149,819
Depreciation	97,058	71,107
Bond amortization	2,808	27,557
Employee benefits	877,501	790,615
Payroll taxes	113,207	71,270
Miscellaneous	12,695	13,953
Consumable and durable supplies	50,417	38,349
Postage	6,729	8,591
Printing and duplicating	9,483	9,136
Professional services	92,842	129,206
Internet access	48,850	40,912
Rent	309,440	271,404
Repairs and maintenance	18,291	12,504
Defined contribution plans	423,522	436,252
Salaries	3,850,242	3,711,702
Software licenses	27,503	32,961
Staff training	25,914	83,889
Subscriptions, publications, dues	82,198	74,203
Telephone	42,850	44,705
Travel	360,216	221,193
Allocation of administrative expenses	(128,366)	(142,956)
Total Expenses	$ 6,569,194	$ 6,127,364

(continued)

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

	2019	2018
Excess of Revenue Over (Under) Expenses	$ 207,232	$ 261,909
Transfer (to) from Appropriated Fund Balance	(15,000)	57,720
Total Amount Transferred	(15,000)	57,720
FUND BALANCE - Unappropriated - Beginning of Year	3,662,485	3,342,856
FUND BALANCE - Unappropriated - End of Year	$ 3,854,717	$ 3,662,485

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, 2019 and 2018

	Equipment Reserve	Enterprise Automation Project	50th Anniversary Conference	Staff Development	Total
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
Transfer from Unappropriated Fund Balance	15,000	-	-	-	15,000
Transfer to Unappropriated Fund Balance	-	-	-	-	-
Net Amount Transferred (To) From Unappropriated Fund Balance	15,000	-	-	-	15,000
Fund Balance - June 30, 2019	$ 114,206	$ 555,715	$ -	$ -	$ 669,921

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, 2019 and 2018

	4R Project	National Nexus Program	Total
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
Revenue	-	807,030	807,030
Expenses	-	823,902	823,902
Revenue Over (Under) Expenses	-	(16,872)	(16,872)
Fund Balance - June 30, 2019	$ -	$ 1,305,742	$ 1,305,742

The accompanying notes are an integral part of these statements.

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

	2019	2018
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over expenses	$ 190,360	$ 244,642
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Depreciation	97,857	71,107
Bond amortization	2,808	27,557
Restricted funds released	-	(42,694)
Unrealized (gain) loss on investments	(49,810)	40,358
Realized loss on sale of investments	808	-
Gain on sale of equipment	(804)	-
Changes in assets and liabilities		
Accounts receivable	(23,250)	760
Prepaid expenses and accrued interest	74,303	(82,470)
Expense account advances and deposits	400	3,104
Accounts payable	30,774	(10,353)
Accrued salaries and vacation pay	(1,061)	21,460
Deferred lease liability	174,282	-
Unearned membership, program and registration fees	26,478	185,265
Net Cash Provided by Operating Activities	523,145	458,736
Cash Flows From Investing Activities		
Purchase of property and equipment	(256,426)	(142,723)
Proceeds from sale of equipment	3,580	-
Purchase of investments	(115,706)	(1,298,742)
Proceeds from sale of investments	232,375	1,336,250
Net Cash (Used in) Investing Activities	(136,177)	(105,215)
Net Increase in Cash and Cash Equivalents	386,968	353,521
Cash and Cash Equivalents - Beginning of Year	1,009,312	655,791
Cash and Cash Equivalents - End of Year	$ 1,396,280	$ 1,009,312
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, 2019 and 2018

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 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.

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 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, 2019 and 2018 was $469,119 and $480,787, 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:

Fiscal Year Ended:	Minimum Annual Payment
2020	$ 427,085
2021	401,060
2022	398,636
2023	398,636
2024	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, 2019 and 2018 was $428,642 and $392,352, 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, 2019 and 2018, 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, 2019 and 2018, the Equipment Reserve fund balances were $114,206 and $99,206, 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, 2019 and 2018, the 50th Anniversary Conference fund balances were $0 and $0, 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, 2019 and 2018, the Staff Development fund balances were $0 and $0, 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 their Member dues for fiscal year 2018. As of June 30, 2019 and 2018, the 4R Project fund balance was $0 and $0, 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, 2019 and 2018, the National Nexus program fund balances were $1,305,742 and $1,322,614, 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 2019	Market 2019	Cost 2018	Market 2018
Investments				
Mutual funds	$ 2,547,160	$ 2,544,999	$ 2,486,573	$ 2,437,238
Money market funds	2,240,644	2,240,644	2,199,087	2,199,087
Corporate bonds	-	-	107,547	106,368
US Government and Agency securities	-	-	113,509	113,425
Total Investments	$ 4,787,804	$ 4,785,643	$ 4,906,716	$ 4,856,118

MULTISTATE TAX COMMISSION
Notes to Financial Statements
June 30, 2019 and 2018

7. Investments (continued)

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, 2019 and 2018, the Commission paid investment fees of $305 and $9,250, 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. 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, 2019 and 2018 was $1,179,509 and $884,352, respectively.
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11. Subsequent Events

Management has evaluated subsequent events through October 24, 2019, the date that the financial statements were available to be issued. There were no significant events to report.

SUPPLEMENTARY INFORMATION

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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, 2019, and our report thereon dated October 24, 2019, 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 24, 2019

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MULTISTATE TAX COMMISSION

Schedule of Expenses

For the Year Ended June 30, 2019

	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	$ 13,000	$ -	$ 4,660	$ -	$ 17,660	$ -	$ -	$ 17,660
Business insurance	-	-	17,254	-	17,254	-	-	17,254
Conferences and training schools	168,663	25,245	1,131	15,841	210,880	24,939	24,939	235,819
Depreciation	-	10,676	86,382	-	97,058	799	799	97,857
Bond amortization	2,808	-	-	-	2,808	-	-	2,808
Employee benefits	148,746	612,786	103,677	12,292	877,501	60,584	60,584	938,085
Payroll taxes	21,277	74,010	16,606	1,314	113,207	9,669	9,669	122,876
Miscellaneous	515	4,316	5,130	2,734	12,695	-	-	12,695
Consumable and durable supplies	4,149	11,840	31,551	2,877	50,417	1,952	1,952	52,369
Postage	1,969	2,291	1,785	684	6,729	7,275	7,275	14,004
Printing and duplicating	3,274	229	-	5,980	9,483	-	-	9,483
Professional services	7,356	-	82,986	2,500	92,842	-	-	92,842
Internet access	3,980	24,827	20,043	-	48,850	31	31	48,881
Rent	119,202	64,221	126,017	-	309,440	119,202	119,202	428,642
Repairs and maintenance	-	1,417	16,874	-	18,291	859	859	19,150
Defined contribution plans	86,514	277,462	53,861	5,685	423,522	45,597	45,597	469,119
Salaries	766,811	2,537,833	494,236	51,362	3,850,242	400,993	400,993	4,251,235
Software licenses	869	980	25,654	-	27,503	-	-	27,503
Staff training	11,147	13,167	1,600	-	25,914	250	250	26,164
Subscriptions, publications, dues	64,460	16,444	1,294	-	82,198	4,902	4,902	87,100
Telephone	15,107	19,121	8,622	-	42,850	4,987	4,987	47,837
Travel	113,453	194,866	31,948	19,949	360,216	13,497	13,497	373,713
Allocation of administrative expenses	286,671	716,274	(1,131,311)	-	(128,366)	128,366	128,366	-
Total Expenses	$ 1,839,971	$ 4,608,005	$ -	$ 121,218	$ 6,569,194	$ 823,902	$ 823,902	$ 7,393,096

The accompanying notes are an integral part of this schedule.

LSWG
Certified Public Accountants & Business Consultants
Accounting for your success since 1965

October 24, 2019

To the Executive Committee of
Multistate Tax Commission

We have audited the financial statements of Multistate Tax Commission (the Commission) for the year ended June 30, 2019, and have issued our report thereon dated October 24, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated July 3, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Multistate Tax Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2019. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

> The Commission's operating expenses have been allocated between program and supporting services based on direct identification when possible and allocation of estimated time if a single expenditure benefits more than one function.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following **material** misstatements detected as a result of audit procedures were corrected by management:

- Record unrealized gain on investments of approximately $50,000.
- Record tenant improvement allowance and liability of approximately $186,000.
- Record fixed asset activity, increase related expenses of approximately $25,000.
- Adjust beginning fund balance and decrease related expenses approximately $72,000.

The net effect of **all** misstatements was to reduce net income by approximately $45,000.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

FASB Accounting Standards Update No. 2014-09

The Financial Accounting Standards Board (FASB) has issued ASU 2014-09, *Revenue from Contracts with Customers*, which will have an effective date of June 30, 2020. The purpose of the new standard is to provide consistent guidance for revenue recognition. There is a new five step process in which revenue is to be recognized.

- Identify the contract with the customer
- Identify the separate performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when the entity satisfies the performance obligation.

All entities are affected by the new standard.

Contributions are exempt because they lack commercial substance. However, certain types of exchange transactions (dues, tuition etc.) will fall under the new standard. The treatment of grants is still being considered by the FASB. In addition, there are new disclosure requirements. Also, if comparative financial statements are required, they will need to be retroactively restated.

We suggest the following to help assist you with the implementation of the new standard:

- Educate yourself
- Form a committee to assist with the implementation
- Communicate with all those that will impacted by the new standard (staff, stakeholders/BODs, accountant)
- Evaluate current and future contracts
- Determine if the current accounting systems can handle the changes
- Look to see how loan covenants will be affected and discuss with the bank(s)

FASB Accounting Standards Update No. 2016-02

The Financial Accounting Standards Board has issued ASU 2016-02, Leases, which will have an effective date of June 30, 2022. The new standard requires that all leases with lease periods greater than one year be recognized as a right of use asset which will have a corresponding liability for the lease payments required during the lease period. Essentially, it treats the majority of leases as capital leases. The increase in the statement of financial position assets and liabilities may have an impact on debt covenant ratios required by banks.

This information is intended solely for the use of the Executive Committee and management of Multistate Tax Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Linton Shafer Warfield & Garrett, P.A.