



Multistate Tax Commission
Annual Report
2004-2005

Multistate Tax Commission



July 1, 2005

To the Honorable Governors and State Legislators of Member States to the Multistate Tax Commission

One of the principal purposes of the Multistate Tax Commission is to bring greater equity, uniformity and compatibility to the tax laws of the various states of this nation and their political subdivisions as those laws affect multistate and multinational businesses. Additionally, the Commission provides both industry and states an organization within which to discuss and resolve their tax problems. The Commission also assists the States in encouraging multistate and multinational businesses to comply properly with state and local tax laws and, in turn, advocates improvements in laws, rules and practices that make it easier and more convenient for those businesses to comply. Finally and fundamentally, the Commission works to help protect the tax sovereignty and jurisdiction of States under the U.S. Constitution so that the role of the States in our democratic systems of federalism remains vital and strong.

The Commission recently entered into a new era with the departure of Executive Director Dan R. Bucks, who guided and directed the work of the Commission for seventeen years. I, as his successor, am committed to promoting the Commission's goals, and will ensure that this tradition continues.

I respectfully submit to you the Annual Report of the Multistate Tax Commission, covering the Commission's activities for the fiscal year beginning July 1, 2004 and ending June 30, 2005.

Respectfully submitted,

Joe Huddleston
Executive Director

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Report of the Executive Committee to the Annual Meeting of the Multistate Tax Commission July 30, 2005

Meetings

The Executive Committee of the Multistate Tax Commission met six times this year, four times in regular session and twice by teleconference. The following meetings and teleconferences were held:

- July 20, 2004, in Mystic, Connecticut
- November 11-12, 2004 in Washington, D.C
- December 9, 2004, via teleconference
- January 13-14, 2005 in San Diego, California
- April 28-29, 2005 in Washington, D.C.
- June 16, 2005 via teleconference

Through these meetings, the Executive Committee has provided oversight and direction to the activities of the Commission, and moved several uniformity measures forward. The Committee's actions in these meetings and teleconferences are recorded in the minutes. In addition to these meetings, the Executive Committee held two strategic planning sessions—the first in November 2004 to assess the Commission's direction and set priorities for future activities; and the second in January 2005 to determine the criteria by which a new Executive Director for the MTC would be selected.

Commission Membership

In the November 10, 2004 Commission Meeting, the Commission voted to accept the States of New York and Vermont as Associate Members effective that date. The addition of these Associate Members—bringing the total of such members to 16—represents a welcome and vigorous pace of increased participation by states in the core activities of the Commission devoted to uniformity, legal support, policy research and education, and federal relations. The State of Maine repealed the Multistate Tax Compact, thereby withdrawing its membership in the Commission. Maine's departure decreases the number of Compact Member States from twenty-one to twenty.

Executive Committee Membership

As elected by the Multistate Tax Commission on July 30, 2004, the Executive Committee Members were as follows:

R. Bruce Johnson, Chair
Carol Russell Fischer (MO), Vice-Chair
Rick Clayburgh (ND), Treasurer
Carol Keeton Strayhorn (TX)
William N. Rice (WA)
Jay Rising (MI)
Joan Wagnon, (KS)
Gerald Goldberg (CA) ex-officio
Timothy Leathers (AR) ex-officio
Elizabeth Harchenko (OR) ex-officio

A number of Executive Committee members left their positions as state tax administrators, requiring elections of their replacements. Carol R. Fischer left the MO Revenue Department and was replaced as Vice-Chair by Rick Clayburgh, at which time Joan Wagnon became Treasurer and Dan Salomone became an at-large member. On Will Rice's departure from Washington State, Elizabeth Harchenko agreed to serve out the remainder of his at-large tenure. Rick Clayburgh left as North Dakota State Tax Commissioner in May, 2005.

At the Annual Commission Business Meeting, the Commission elected the following slate of elected officers and at-large committee members to serve for the next year as elected members of the MTC Executive Committee.

Chair: Joan Wagnon, Kansas
Vice-Chair: Dan Salomone, Minnesota
Treasurer: Jan Goodwin, New Mexico
At-Large:
Carole Keeton Strayhorn
(Billy Hamilton, alternate), Texas
Dan Bucks, Montana
Will Bush, California Franchise Tax Board
Cindi Yates, Washington

Ex-officio members include: Gerald Goldberg of the California Franchise Tax Board (until his retirement on September 1, 2005), Tim Leathers of Arkansas, Bruce Johnson of Utah and Elizabeth Harchenko of Oregon.

Highlights

At each of its in-person meetings, the Executive Committee conducted oversight of the activities of the MTC's Standing Committees, task forces and staff. The Committee reviewed the Commission's finances through the Treasurer's quarterly reports and the conduct and review of an annual financial audit.

As usual, the Executive Committee supervised the development of uniformity proposals. This past year: The Committee moved forward a number of measures developed to improve uniformity and compatibility of state tax practices. Several of these uniformity measures have been developed out of the MTC's State Tax Compliance Initiative. The following uniformity proposals were advanced during the course of the year:

- Uniformity Recommendation on Proposed Rule for Determining Sales and Use Tax Priority for Leasing Transactions, adopted by the Multistate Tax Commission on November 11, 2004.
- Model Affiliate Nexus Statute, referred to public hearing and the Bylaw 7 survey process, and expected to become before the Commission for approval.
- Model Combined Reporting Statute, referred to public hearing and the Bylaw 7 survey process, and expected to come before the Commission for approval.
- Model Add-back Statute, referred to public hearing (held on July 18, 2005).
- Model Reportable Transactions/Inconsistent Filing Position Statute, referred to public hearing (date to be set).

The Executive Committee also proceeded with other projects from the State Tax Compliance Initiative, including the establishment, together with the Federation of Tax Administrators, of the Information Sharing and Compliance Task Force. The Committee continues to evaluate the work to be done on other Initiative recommendations like revising UDIPTA and providing education on and working with the IRS regarding pass-through entities.

In November 2004, the Committee commenced a strategic planning process, a process that has been delayed due to the major staffing changes in the Commission. With the resignation of Dan Bucks as MTC Executive Director, the Executive Committee needed to focus its attention on the search for a new director of the organization. After two rounds of candidate reviews and interviews, the Search Committee of the

Executive Committee recommended, and the Chair selected, Joe Huddleston to be the next Executive Director of the Multistate Tax Commission.

Budget Action

The Executive Committee, with the support of a Budget Subcommittee has worked on a budget that supports the Commission's work and maintains the organization's fiscal health while accounting for the states' slowing improving revenue outlook. During this transition phase for the Commission, the State of Maine unfortunately decided to drop funding of its Compact Membership and its participation in the Joint Audit Program. The Executive Committee adopted the revenue portion of the FY 2005-2006 budget at its April 28-29, 2005 meeting and, with the revenue reductions for Maine in place, adopted the expenditure portion of the budget on July 27, 2005.

The Executive Committee submitted to the Commission for ratification its actions of April 28, 2005 and July 27, 2005 to establish an FY 2006 membership assessment for twenty Compact and five Sovereignty Members of the Commission at \$1,537,868 distributed among those states in accordance with the formula prescribed in Article VI.4.(b) of the Multistate Tax Compact.

Report of the Audit Committee and Audit Program Multistate Tax Commission July 2005

Rich Schrader, Chair, MTC Audit Committee
John Feldmann, Vice Chair, MTC Audit Committee
Les Koenig, Director, MTC Joint Audit Program

The following report reflects the activities of the MTC Audit Committee and the Audit Program for 2004-2005 fiscal year.

Audit Committee

The MTC Audit Committee met three times during the fiscal year. During the Annual Meeting in July, 2004 the Audit Committee reviewed the past year MTC audit activity.

During the November, 2004 meeting, Income Tax Nomination Forms were distributed at this meeting to start the annual selection process.

During the March meeting, the Audit Committee reviewed the status of all audits in progress. The Committee also provided guidance on several key issues in several audits. The Audit Committee selected income tax audits for the MTC Audit Program's Inventory.

Also during the March Meeting, the Audit Committee formed a task force to explore options to deal with corporate tax shelters. This Task force is chaired by Montana representatives. This Task Force plus the MTC Audit Director visited California to explore ways that California is dealing with this problem. The Task force will distribute a report to the Audit Committee at the July Annual Meeting.

The Audit Committee also met numerous times by teleconference to discuss several audits where cutting edge issues were pertinent and follow up on several audits that were protested.

Lastly, the Audit Committee reviewed the MTC Audit Program's audit activity at each meeting and offered advice on many complex audit issues that were found in various audits.

In late June, Maine informed the MTC that it was dropping its membership in the Audit Program.

Audit Program

Productivity

The Audit Staff completed 11 sales tax audits for the fiscal year end 6/30/05. There are currently 22 sales tax audits in progress. The Audit Staff completed 7 income tax audits during this fiscal year. There are currently 14 income tax audits in progress one of which is an audit referred from the National Nexus Program.

The MTC Audit Program has increased the productivity of its audit work by over 66% since 1989, as measured by the number of staff hours per audit per state. In 1989, an MTC audit required 168 hours of staff time per audit per state. In 2005, that number was only 56. That represents improved efficiency for both states and taxpayers, who also benefit when tax auditors spend less time completing an audit.

Please note in interpreting the enclosed charts on productivity that declining numbers represent improvement.

Staffing

The MTC Audit Program hired two sales tax auditors this year. Two sales tax auditors resigned and one other was dismissed this year. One position remains unfilled at this time.

Automation

The MTC is pursuing electronic records in every audit that is commencing. The MTC Sales Tax Auditors request electronic records when an audit begins. Several taxpayers have been cooperative in supplying the records. However, many taxpayers are still reluctant to supply electronic records. Every effort is made to assure the taxpayer that electronic records will be held in all confidentiality.

Note: Declining numbers on the following charts represent improvement

Audit Hour Analysis
Last Four Quarters

	<u>9/04</u>	<u>12/04</u>	<u>3/05</u>	<u>6/05</u>	<u>Total</u>
Income Tax					
<u>Total Audits</u>	0	1	1	5	7
<u>Total States Audited</u>	0	16	19	161	196
<u>Total Hours</u>	0	592	1768	10257	12617
Average Hours Per State	50	37	93	64	64
Sales Tax					
<u>Total Audits</u>	1	3	3	4	11
<u>Total States Audited</u>	11	48	43	58	160
<u>Total Hours</u>	747	876	2301	2209	6133
Average Hours Per State	68	19	54	38	38
Total Both Taxes					
<u>Total Audits</u>	1	4	4	9	18
<u>Total States Audited</u>	11	64	62	199	336
<u>Total Hours</u>	747	1468	4069	12466	18750
Average Hours Per State	68	23	66	63	56

**TRENDS IN PRODUCTIVITY
MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/89 - 6/04**

Income Tax Total Audits	6/89	6/90	6/91	6/92	6/93	6/94	6/95	6/96	6/97	6/98	6/99	6/00	6/01	6/02	6/03	6/04	6/05
	12	4	9	7	12	9	9	9	10	9	7	10	8	7	8	7	7
Total States Audited	112	37	95	75	132	93	99	111	152	120	186	251	131	166	165	266	196
Total Hours	2067 ⁹	7211	1264 ⁶	1114 ⁸	1120 ⁸	9016	9284	7548	12249	1001 ²	1006 ⁰	1313 ³	8684	9396	1055 ⁶	1201 ²	1261 ⁷
Average Hours Per State	184	195	133	148	85	97	94	68	81	83	55	52	66	57	64	45	64
Sales Tax Total Audits	9	9	8	9	14	13	15	13	14	10	16	11	14	13	11	10	11
Total States Audited	85	88	79	104	146	140	152	123	143	97	184	102	158	159	145	154	160
Total Hours	1239 ³	8866	7069	1220 ⁹	1432 ³	6818	8009	9746	11349	7721	7438	9062	1190 ⁰	8850	8792	1094 ³	6133
Average Hours Per State	146	101	89	117	98	49	53	79	79	80	40	89	75	56	61	71	38
Total Both Taxes Total Audits	21	13	17	16	26	22	24	22	24	19	23	21	22	20	19	17	18
Total States Audited	197	125	174	179	278	233	251	234	295	217	370	353	289	325	310	420	336
Total Hours	3307 ²	1607 ⁷	1971 ⁵	2335 ⁷	2553 ¹	1583 ⁴	1729 ³	17294	23598	1773 ³	1749 ⁸	2219 ⁵	2058 ⁴	1824 ⁶	1934 ⁸	2295 ⁵	1875 ⁰
Average Hours Per State	168	129	113	130	92	68	69	74	80	82	48	63	71	56	62	55	56

Annual Report

MTC Combined Registration Advisory Committee

July 2005

Jane Page, Chair

The Committee met periodically throughout the year, both as a full committee and in subgroups. During the year, the Committee accomplished the following.

1. *Registration Design Elements.* The Committee identified and logged all common data elements to be included in the first version of the traditional registration system (TRS).
2. *Change Controls.* The Committee developed a change control system to log state requests for additional data elements to be included in future versions of the TRS.
3. *Software architecture.* Working with the MTC design team, the Committee continuously refined the software architecture.
4. *User Interface.* The Committee designed the user interface for TRS Version 1.
5. *XML Schema.* The Committee regularly addressed schema design issues throughout the year. The Tax Implementation Group for EC Requirements Standardization (TIGERS) approved the TRS schema at its December 2004 meeting.
6. *Testing.* The Committee implemented both a system application protocol and a transmission test protocol for participating states. The application test group of Texas, Minnesota and South Dakota completed a first round of testing towards the end of April 2005. Further testing has been delayed due to MTC staffing issues (see below).

Through May 2005, the project was managed by the MTC's IT Director, Naresh Verma. In addition, the MTC retained the services of a systems design consultant, e.Magination, to assist in the system design work. As of May, much of the system's software code was written and the project was on-track for implementation in June 2005. However,

beginning in May, Mr. Verma went out on long-term medical leave because of a serious illness. As a result, work on the project was suspended.

Following this development, Technology Committee Chair Tim Blevins and Nexus Committee Director Sheldon H. Laskin met several times with e.Magination staff in Baltimore, to explore the feasibility of retaining e.Magination to manage the project to completion. It appears that doing so is both feasible and affordable. Staff is presently surveying the top tax administrators of all states that have expressed interest in the MTC Combined Electronic Tax Registration System to determine their commitment to proceed with this project at this time. If sufficient states commit to doing so, staff will recommend to the new MTC Executive Director Joe Huddleston, that the e.Magination contract be signed. E.Magination anticipates implementation of TRS Version 1 in the late Fall of 2005.

Juli Peterson, formerly of the Minnesota Department of Revenue, completed her consultancy to the project in June. The Committee greatly appreciated Juli's energy, knowledge and dedication to the project. Her contributions to the Committee's work were invaluable and are greatly appreciated.

Annual Report of the Litigation Committee and MTC Legal Activities

July 2005

*Marshall Stranburg, Chair
Frank Katz, Deputy General Counsel*

We report here on the activities of the Litigation Committee and the Legal Division of the Multistate Tax Commission for fiscal year 2004-2005.

Litigation Committee

The Litigation Committee met twice this past year, in July, 2004, at the annual meeting in Mystic, CT, and in March, 2005, in Tampa, FL. Marshall Stranburg of FL is the Chair of the Committee and Clark Snelson and Mark Wainwright of UT are the Vice-Chairs. The Committee held its regular informational and training sessions at both venues, holding the following mini-seminars. In Mystic, Mark Dubois, Chief Disciplinary Council for the Judicial Branch in Connecticut, spoke on *The Perils and Promise of Law Practice on the Internet*, and there was a discussion with the Audit Committee on *Strategies to Address Abusive Tax Sheltering*. In Tampa, Marge Brewer of the Ohio Department of Revenue discussed the *Constitutionality of Tax Credits as Economic Development Incentives* and Michael Brownell of the California FTB and Frank Katz, MTC General Counsel, discussed *Updating UDITPA*. The Committee continued to discuss methods of cooperation among states and a coordinated, strategic approach to litigation.

In Tampa, the Litigation Committee discussed the Supreme Court's decision in ***Commissioner v. Banks*** holding that when a litigant's recovery is classified as income that income includes the portion of the recovery paid to the attorney as a contingency fee.

The Supreme Court has subsequently handed down several other significant decisions.

- In ***Granholm v. Heald***, the Court found discriminatory under the Commerce Clause state law provisions that allow in-state but not out-of-state wineries to ship directly to consumers. That discrimination is neither authorized nor permitted by the Twenty-first Amendment to the Constitution. The pre-prohibition Wilson and Webb-Kenyon Acts did not

authorize states to discriminate, and the Twenty-first Amendment simply restored to states the power they had under those Acts to maintain an effective and uniform system for controlling liquor by regulating its transportation, importation, and use. It did not give States the authority to pass nonuniform laws in order to discriminate against out-of-state goods, a privilege they never enjoyed. The Court disapproved early post-repeal cases allowing states to discriminate against out of state liquor sellers. The Twenty first Amendment does not supercede other constitutional provisions. Finally, no compelling state interest would permit this discrimination, neither barring sales to minor nor avoiding tax evasion. The Court noted that states can protect themselves from evasion by requiring out-of-state wineries to get a permit, presumably conditioned on compliance with tax laws. No mention was made of *Quill*. Justice Thomas in dissent would rely on the longstanding rule that once Congress has invoked its authority to regulate interstate commerce in an area, as it did with the Wilson and Webb-Kenyon Acts, the protection against discriminatory taxation of the dormant commerce clause disappears.

- In ***City of Sherrill, N.Y. v. Oneida Indian Nation of New York***, the Court ruled that property set aside as reservation land in the late 18th century, later sold to non-members, but reacquired by the Oneida Indian Nation of New York in open-market transactions in the 1990's was subject to taxation by the city. Given the longstanding, distinctly non-Indian character of central New York and its inhabitants, the regulatory authority over the area constantly exercised by the State and its counties and towns for 200 years, and the Oneidas' long delay in seeking judicial relief against parties other than the United States, standards of federal

Indian law and federal equity practice preclude the Tribe from unilaterally re-viving its ancient sovereignty, in whole or in part, over the parcels at issue.

- In ***Johanns v. Livestock Marketing Association***, assessments directed by the Department of Agriculture on all cattle sold, the proceeds from which are used by an agency controlled Board for promotion of the marketing of beef, was challenged on first amendment grounds by certain cattlegrowers. The Court ruled that because the assessment funds the government's own speech it is not susceptible to a First Amendment compelled-subsidy challenge. The fact that citizens have no First Amendment right not to fund government speech is no less true when, as here, the funding is achieved through targeted assessments devoted to a program to which some assessed citizens object, rather than through general taxes.
- In ***American Trucking Assoc, Inc. v. Michigan Public Service Comm'n***, the Court ruled that Michigan's \$100 annual fee imposed on trucks engaged in intrastate hauling does not violate dormant Commerce Clause because it is imposed only on intrastate transactions, and does not facially discriminate between interstate and out-of-state enterprises or activities.
- In ***Mid-Con Freight Systems, Inc., v. Michigan Public Service Comm'n***, the Court ruled that Michigan's \$100 annual fee imposed on Michigan-plated trucks operating in interstate commerce did not contravene the Intermodal Surface Transportation Act's Single State Registration System as the statute imposing the fee is not specifically related to the Act's registration requirements. The federal act was not intended to pre-empt every form of state registration, only those that relate to evidence of possession of a federal permit to operate in interstate commerce.
- In ***National Cable & Telecommunications Association et al. v. Brand X Internet Services***, and ***Federal Communication Commission v. Brand X Services et al.***, the Court reversed a 9th Circuit holding that, under principles of *stare decisis*, its prior decision

in *AT&T Corp. v. Portland* interpreting the Communications Act of 1996 to treat broadband cable modem companies as a hybrid of "information service" and "telecommunications service" could not be disregarded in deference to the FCC's subsequent determination treating such companies as "information services" only. The Supreme Court ruled that a court's prior construction of a statute trumps an agency construction otherwise entitled to deference only if the prior court decision held that its construction follows from the unambiguous terms of the statute and thus left no room for agency discretion. Here, that was not the case and the FCC's determination was a lawful construction of the ambiguous federal statute under the framework of deference to agency action established in *Chevron*.

The Litigation Committee discussed these other significant decisions:

- ***Cuno v. DaimlerChrysler, Inc.***, (below 383 F.3d 379, (6th Cir., 10/19/04)) The 6th Circuit has found an investment tax credit allowed against state franchise tax discriminates against interstate commerce in violation of the Commerce Clause. The credit was part of a development agreement under which a manufacturer would construct a new plant near its existing facility in exchange for various tax incentives from the city and two local school districts, including 1) a ten-year 100% property tax exemption for tangible personal property first used in business at the project site as a result of the agreement, and 2) a non-refundable investment tax credit against the state corporate franchise tax for investments in machinery and equipment that is installed in the state. The court declined to distinguish between laws that benefit in-state activity and laws that burden out-of-state activity, finding such a distinction was tenuous, was not supported by U.S. Supreme Court case law and, "economically speaking, the effect of a tax benefit or burden is the same." The court distinguished an investment tax credit from a permissible direct subsidy because a tax credit involves state regulation of interstate commerce through its power to tax. Conversely, court ruled that the property tax incentive did not violate the Commerce Clause because the conditions imposed on the exemption did not discriminate based on an independent

form of commerce independent of the newly acquired property. The property tax incentive required only an investment in new or existing property within an enterprise zone and the maintenance of employees, but did not impose specific monetary requirements, require the creation of new jobs, or encourage an additional form of commerce. The court held there was no violation of equal protection, finding that the burdens the incentives imposed were rationally related to the purpose of the state statutes – to encourage industrial development and economic stimulation of the state’s economically troubled areas.

- ***Bridges v. AutoZone Properties Inc.***

A retailer doing business in Louisiana took a deduction for approximately \$20 million in lease payments made to an affiliated Nevada real estate investment trust (REIT). The REIT filed a tax return in Louisiana but reported no income because nearly all of its income was paid as dividend to its Nevada parent corporation and was thus eligible for the REIT dividend deduction. Louisiana assessed tax on the Nevada parent corporation, which moved to dismiss for lack of personal jurisdiction. The Court of Appeals ruled that the State had no jurisdiction over the Nevada parent because the intangible property owned by the Nevada parent (the shares of the REIT) had no presence in Louisiana. The Louisiana Supreme Court reversed on March 24, 2005, ruling that “*International Harvester* stands for the proposition that a state may tax a nonresident shareholder’s investment income based on its investment in a separate corporation engaging in business activities in the state, when the state has provided benefits, opportunities and protections which contributed to the profitability of the in-state activities. Since the taxing jurisdiction, Louisiana, has helped to create the income, it should not be prevented from assessing a constitutionally permissible share of those gains in the form of income taxes for the support of the government.”

- ***A&F Trademark Inc. et al. v. Tolson***,

The North Carolina Court of Appeals, December 7, 2004, affirmed that North Carolina can require these intangible holding companies to pay income tax on royalties for use of their trademarks

paid by various retail affiliates in North Carolina, and that *Quill* does not impose a physical presence requirement for income and franchise tax. The decision contains a pointed dismissal of the basis of the New Jersey Tax Court decision in *Lanco*

Activities of the Legal Division of the Commission

Formal Court Appearances

The Commission filed an *Amicus Curiae* brief in the United States Supreme Court in ***Wagnon v. Prairie Band Potawatomi Nation*** in support of the Petition for Certiorari filed by the Kansas. The Court grant Certiorari and the Commission then filed an *Amicus Curiae* brief in support of Kansas on the merits. At issue was whether the Kansas fuels tax imposed on the distributor for the receipt of gasoline in Kansas (which took place off the reservation) is preempted by federal law when the fuel is sold to a tribal retailer on the reservation. The Tenth Circuit has applied the interest balancing test of *White Mountain Apache Tribe v. Bracker*. The Commission argued that the balancing test does not apply to a tax imposed on an off reservation transaction.

The Commission also filed an *Amicus Curiae* brief in the U.S. Supreme Court in ***Hammond v. Coeur d’Alene Tribe*** in support of the Petition for Certiorari filed by Idaho. The issue was much the same as in the *Wagnon* case, but with the twist that the Ninth Circuit had concluded that the Idaho tax remained imposed on the retailer even after the Idaho Legislature had carefully amended it to make clear its intention that it be imposed on the distributor. The Court denied Certiorari, perhaps with the expectation that the Idaho legislature could remedy where it has imposed the tax, and the issue of tax imposed on the off-reservation distributor will be decided in the *Prairie Band Potawatomi* case.

The Commission filed an *Amicus Curiae* brief in the California Supreme Court in ***General Motors v. Franchise Tax Board*** in support of the FTB. At issue was whether the return of principle on short term investments constituted a sales receipt includable in the sales factor and whether the research tax credit is allocated on a separate company basis or is apportioned in the manner that unitary business income is apportioned. It is anticipated that Commission Deputy General Counsel Shirley Sicilian will participate in oral argument before the California Supreme Court.

The Commission's *Amicus Curiae* brief in the New Jersey Court of Appeal in **Lanco v. Director, Division of Taxation** filed last August was accepted by the Court in November. The case concerns whether an intangible holding company has sufficient nexus with New Jersey to be liable for income tax on the royalties from licensing the Lane Bryant name to retail stores in New Jersey, even though Lanco has no physical presence there. The case was argued this winter and a decision is expected in the near future.

Promoting Uniformity

The Legal Division continued to staff the Uniformity Committee and participate broadly in the uniformity effort of the Commission. The projects on which the Committee and the Division have been working are:

- model affiliate nexus statute;
- model combined reporting statute;
- model statute requiring the add-back of intangible and interest expense;
- model statute for reportable transactions and inconsistent filing positions;
- revised model regulation on sales factor treatment of contractors and subcontractors in determining cost of performance;
- model statute for taxation of Internet hotel intermediaries; and
- model regulation on telecommunications sales factor apportionment.

MTC Deputy General Counsel Shirley Sicilian conducted two public hearings on the model combined reporting statute and filed a report and a supplemental report with the Executive Committee. MTC General Counsel Frank Katz conducted two public hearings on the uniformity proposal on affiliate nexus and filed his report with the Executive Committee. He will conduct a public hearing on July 18, 2005 on the model add-back statute and will file his report with the Executive Committee for its July, 2005 meeting.

In addition, the Legal Division continued its involvement with and support of the Streamlined Sales Tax Project attending meetings in Nashville, Tucson, Tampa and Chicago and numerous teleconferences.

Federal Legislative and Executive Issues

The Legal Division continues to monitor proposed federal legislation that has threatened the fundamental assumptions of our federal system and has the potential to significantly deny States the ability to raise revenue in a number of areas. Legislation that has been monitored during the past year includes business activities tax nexus (last year's HR 3220 and this year's HR 1956); authorization for SSTP implementing states to require remote sellers to collect use tax; the Internet Tax Freedom Act extension; preemption of state regulation and taxation of VoIP; and abusive tax shelter monitoring and restriction.

Communications about State Efforts to Change State Tax Systems to Meet Changing Economic Conditions

Personnel from the Legal Division are a source of spokespersons from the MTC to communicate about the activities of the Commission with third parties, including business leagues, professional associations, government associations, educational symposiums and publications. General Counsel Frank Katz attended WSATA, made presentations to the New Mexico Legislature concerning combined reporting, to the Georgetown State and Local Tax Conference in May in Washington DC on the national perspective on state corporate income tax and on reforming UDITPA, and to the Federation of Tax Administrators Annual Meeting in June San Antonio on corporate tax issues. Deputy General Counsel Shirley Sicilian made a presentation on the uniform combined reporting statute project to NASBTS (National Association of State Bar Tax Sections) and she participated in corporate income tax training in Colorado in September. Counsel Roxanne Bland attended NESTOA.

Administration of the Commission

The Legal Division acts as the legal advisor on issues that arise in the context of the administration of the Commission and has consulted on personnel issues, leases and contracts.

Support of Other Functions of the Commission

The Legal Division provides legal support to other functions of the Commission, including the Joint Audit Program and the National Nexus Program. During the past year, the Legal Division has advised the staff of the Joint Audit Program on a number

of audits, conferencing with several taxpayers. The Legal Division continued to seek enforcement of a subpoena that the Commission issued to compel the production of records.

The Legal Division has provided staff support to the State Tax Compliance Initiative Work Groups, working with the work groups on their recommendations and their reports.

Technical Support of States

The Legal Division has from time to time provided technical support to the States on various issues affecting state taxation of multijurisdictional commerce, including nexus issues, the definition of unitary business, apportionment and business/nonbusiness income questions.

This report summarizes the activities of the MTC Nexus Committee and the Nexus Program for the period July 1, 2004 through June 30, 2005.

Nexus Committee

The MTC Nexus Committee met in Mystic, CT, Washington, DC and Tampa, FL during the fiscal year. In addition, the Committee met a number of times by teleconference.

During the year, the Committee reviewed the status of a number of nexus audits of major retailers.

The MTC Combined Electronic Tax Registration Committee met periodically throughout the year. As a result of staff medical issues, the MTC is currently negotiating a contract with its system development consultant, e.Magination, to assume program development management. Staff anticipates that the traditional sales and use tax registration portal will be implemented in the Fall of 2005.

Annual Report National Nexus Committee & Program

July 2005

*Joseph Thomas, MTC Nexus Committee Chair
Sheldon H. Laskin, National Nexus Program Director*

Nexus Program

Voluntary Disclosures

During FY 2005, the National Nexus Program executed contracts with 60 taxpayers, resulting in 416 separate agreements with member states. These agreements resulted in \$3,761,073 in back taxes collected and \$11,286,192 in estimated annual future collections. Also, during the fiscal year, the Nexus Program opened 69 new voluntary disclosure cases, representing 736 separate potential contracts. The following chart compares the results in FY 2004 to those of FY 2005.

Voluntary Disclosure Marketing

During FY 2005, thirteen member states distributed 5,934 MTC voluntary disclosure brochures to taxpayers making voluntary disclosures in each state. This compares favorably to FY 2004, when three member states distributed 1,739 MTC voluntary disclosure brochures, an increase of ten participating states and 4,195 brochures. Also during the fiscal year, the Voluntary Disclosure Program's ad on Google was viewed 186,536 times with 1,405 viewers visiting the MTC website by clicking on the ad. Comparable figures for FY 2004 were 222,603 ad viewings and 1,264 visits to the MTC website. Viewed another way, 3/4% of ad viewers subsequently visited the MTC website in FY 2005, as compared to just over 1/2% the previous year. The cost of the ad for the year was \$714.15. The ad is now being displayed by Google in "content" situations, such as at the bottom of newspaper articles that relate to taxes. It also continues to be displayed with general search results on Google.

In addition, MTC staff routinely discusses the voluntary disclosure program and distributes disclosure brochures during appropriate public presentations.

Nexus Data Exchange

Nexus Discovery Lead Sets 6 and 7 were completed during FY 2005 with staff sending research on a total of 91 companies to Nexus Program states. In addition, Lead Set 8 was initiated in March 2005,

covering a total of 32 companies. Staff sent letters to each of these companies, inviting them to initiate voluntary disclosures. Three companies initiated MTC voluntary disclosures during FY 2005 as a result of lead set contact. Those cases are pending as of this report. A fourth disclosure was completed during this period. The next Lead Set is to begin on September 15, 2005.

Nexus School

During the fiscal year, MTC staff conducted nexus schools in Independence, OH, Portland, ME and Washington, DC. A total of 155 students attended the three schools. Schools are scheduled in Montgomery, AL in September 2005 and Oklahoma City, OK in December.

Presentations

Nexus Counsel Tom Shimkin made two separate nexus and voluntary disclosure presentations in Miami, FL to several committees of a major national trade association representing manufacturers of large durable goods and associated parts and accessories. In addition, Tom made a voluntary disclosure and nexus presentation at the Chicago Tax Club during a panel discussion with a private sector practitioner.

Staff Developments

In April 2005, Diane Simon-Queen was promoted from Administrative Assistant to Paralegal.

	FY 2004 ¹	FY 2005	Percentage Change
Number of taxpayers concluding agreements	64	60	-6.25%
Number of executed contracts	328	416	27%
Back taxes collected	\$5,494,519	\$3,761,073	-46%
Estimated future collections	\$3,144,980	\$11,286,192	259%
New cases opened	73	69	-5.5%
Number of potential contracts under new cases	806	736	-9%

(Footnotes)

¹ In FY 2004, staff processed 182 contracts with 23 taxpayers who had previously secured a recommendation to the states from the SSTEP to consider each proposal for voluntary disclosure. During FY 2005, the Nexus Program did not process any such contracts. Therefore, in order to provide meaningful comparisons between the results for FY 2005 and the previous year, the numbers reported in this column in the FY 2004 Nexus Committee and Program Annual Report have been revised in the current report to include only the results of disclosure activities not associated with the SSTEP.

Training Report

July 29, 2005

Ken Beier, Training Director

This report highlights significant training events of the past year. Eight courses were provided to the states during 2004-05—consisting of four sampling courses, three Nexus Schools and one corporate income tax training—a substantial increase over the one sampling course and one Nexus School provided during the 2003-04 year. The reasons for the increase were primarily, the improved fiscal conditions in the states, and the reintroduction of the corporate income tax course to the MTC curriculum.

Courses Offered in 2004-05

The following MTC courses were offered during the year:

Statistical Sampling

August 16-20, 2004 in Pittsburgh, Pennsylvania for 15 students
January 10-14, 2005 in Cheyenne, Wyoming for 20 students
May 2-6 in Trenton, New Jersey for 24 students

Non-statistical Sampling

May 23-27 in Portland, Maine for 24 students

Nexus School

October 5-6, 2004 in Independence (suburban Cleveland), Ohio for 74 students
May 10-11 in Portland, Maine for 35 students
June 28-29 in Washington, DC for 45 students

Corporate Income Tax

September 20-24, 2004 in Louisville, Colorado for 41 students

Training Survey

Twenty-three states responded to a training survey which was conducted in February 2005. This helped in identifying training interests of the states and provided a basis for scheduling of courses for the coming year.

Current Schedule of Course Offerings

The following courses are currently scheduled:

Nexus School--September 20-21 in Montgomery, Alabama (Registration is open for this course.)

Corporate Income Tax--October 24-28 in Montpelier, Vermont (Registration materials should be available for this course in August. This course is being provided primarily to Vermont, but has some openings for students from other states.)

Discussions are underway with several states on additional sessions for the Nexus School, sampling training, and corporate income tax training during the 2005-06 fiscal year.

Training Advisory Committee

Designations have been made to an advisory committee on training from the Uniformity Committee (Ted Spangler of Idaho), Audit Committee (Rick Schrader of New Jersey), Nexus Committee (Joe Thomas of Connecticut) and Technology Committee (Joe Randall of Idaho). However, a chair for this committee has not been appointed.

Annual Report of the Uniformity Committee

July 28, 2005

Ted Spangler, Chair of the Uniformity Committee

The Uniformity Committee is charged with developing uniform sales and income tax proposals that are not only acceptable to business and state tax agencies, but also have a reasonable likelihood of adoption by a significant number of States. Since much of the Commissions' policies originate in this Committee, members endeavor to reflect this understanding in their deliberations.

Below is a review of the Uniformity Committee's specific projects for the complete fiscal year 2004-2005.

SALES AND USE TAX

Sales and Use Tax Priority Project—Leasing Transactions

The Commission adopted this proposal as an MTC Uniformity Recommendation to the States on November 10, 2004.

Hotel Intermediaries

The Sales and Use Tax Subcommittee began investigating this issue at its July 2004 meeting. The question revolves around the remittance procedures for Internet booking services. After much discussion within the subcommittee and with industry representatives, the subcommittee will review a draft statute at its July 2005 meeting

Model Affiliate Nexus Statute

The Uniformity Committee referred a model affiliate nexus statute to the Executive Committee for consideration for the public hearing process in November 2004. The Executive Committee acted affirmatively on the Uniformity Committee's recommendation. Public hearings were held on January 4, 2005 in Oakland, California and on March 29, 2005 in Washington, D.C., respectively. A Hearing Officer's Report was filed on [April 15, 2005. At its April 29, 2005 meeting, the Executive Committee of the Commission authorized a Bylaw 7 survey with respect to the proposal. A majority of the states surveyed

support the proposal, and it is expected the proposal will be presented to the full Commission for formal adoption as an MTC Uniformity Recommendation at its Annual Business Meeting in July 2005.

INCOME AND FRANCHISE TAX

Model Combined Reporting Statute

This proposal was referred to the Executive Committee for consideration for the public hearing process in November, 2004, which accepted and subsequently acted affirmatively on the Uniformity Committee's recommendation. Public hearings were held on January 4, 2005 and March 29, 2005 in Oakland, California and Washington, D.C., respectively. A Hearing Officer's Report was filed on April 25, 2005. On April 28, 2005, the Executive Committee referred the proposal to the Uniformity Committee for comments on the Hearing Officer's proposed changes. The Uniformity Committee expressed concurrence with those recommended changes on May 13, 2005. On June 3, 2005 a Supplemental Hearing Officer's Report was issued, and on June 16, 2005, the Executive Committee approved the proposal as revised for a bylaw 7 survey. If a majority of the affected States respond affirmatively to the Bylaw 7 survey, proposal will be presented to the full Commission for formal adoption as an MTC Uniformity Recommendation at its Annual Business Meeting in July 2005.

The Subcommittee will continue to work on uniform administrative rules and regulations to accompany the statute.

Model Reportable Transactions Statute

The subcommittee reviewed two draft versions of this proposal at its March 2005 meeting. The first draft requires taxpayers to report all inconsistent state filing positions, while the second requires reporting of all relevant state factors, such as business and nonbusiness income, apportionment factors and percentages reported to each of the states. On June 2, 2005, the Subcommittee voted to adopt the version reflected in the first draft requiring the reporting of

inconsistent filing positions. On June 14, 2005, the Uniformity Committee adopted the proposal, and on June 16, 2005, the Executive Committee approved the proposal for public hearing.

Telecommunications Sales Factor Apportionment

The subcommittee, with substantive input from industry representatives, continues its work in crafting a proposed regulation for special sales factor apportionment for telecommunications and ancillary services.

Model Add-Back Statute

One of the recommendations of the State Tax Compliance Initiative was to draft a model Expense Disallowance Statute (also styled an Expense Add-back Statute) for states that had not adopted combined reporting. The Executive Committee referred the drafting to a special work group made up of state attorneys Michael Fatale (MA), Joe Garrett (AL), Wood Miller (MO), Brian McCann (NY) and Frank O'Connell (GA). The work group's draft was approved by the Income and Franchise Subcommittee on March 17, 2005 and by the full Uniformity Committee the next day. The Executive Committee referred the proposal to a public hearing process at its April 28, 2005 meeting. A public hearing is scheduled for July 18, 2005 in Washington, DC. It is anticipated that a Hearing Officer's Report will be filed with the Executive Committee prior to its July 26, 2005 meeting.

MTC Reg.IV.17(2) "On Behalf of" Project

Under section 17 of UDITPA, if a taxpayer has a receipt from a sale of other than tangible personal property, and the income producing activity related to that sale occurs in more than one state, that sale is assigned to the numerator of the sales factor of the state where the greater income producing activity is located, based on cost of performance. Under MTC Reg. IV.17(2), income producing activity "does not include the transactions and activities performed on behalf of a taxpayer, such as those conducted by independent contractors." That implies that a cost paid to another entity that performs a service on the taxpayer's behalf is not considered a cost of performance for purposes of determining the location of the greater cost of performance. It is not entirely clear why the sales factor numerator should be different depending on whether a company performs a service itself or outsources it. Moreover, there are a range of "on behalf of" actors that include 1) employees, 2) members of a combined reporting group 3) members of a unitary group 4) an affiliated but not unitary corporation 4) an individual acting as an agent, 5) a

corporation acting as an agent, and 6) independent contractors (whether individuals or corporations). Disregarding work performed "on behalf of" the taxpayer offers potential tax planning opportunities because the taxpayer could substantially control the state to which the sales would be assigned by either performing the contract itself, or hiring a member of its group to perform the contract, thereby shifting the receipt from one state to another. The question is whether this provision still makes sense in this age of outsourcing, whether it should be modified, or whether it should be abandoned. The subcommittee voted to adopt this issue as a uniformity project at its March 2005 meeting. Work on the project is expected to get underway during the Subcommittee's July 2005 meeting.

Conclusion

I would like to express my appreciation to the several Uniformity Committee members who have given generously of their time and energy to develop the large number of proposals considered by the Committee during this fiscal year. As always, I remain grateful to Wood Miller, MO, and Adina Christian, TX, Chairs of the Income and Franchise Tax Subcommittee and the Sales and Use Tax Subcommittee. The committed involvement of state participation on these proposals is testimony to the dynamic and committed leadership of the Commission itself.

Multistate Tax Commission Budget for 2005/2006

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BUDGET SUMMARY							
DESCRIPTION	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	ACTUAL	APPROVED	ESTIMATED	PROPOSED	PROJECTED	PROJECTED	PROJECTED
General Operations Program - Revenues	1,465,060	1,518,500	1,478,868	1,578,368	1,657,913	1,741,631	1,834,303
- Expenses	(1,464,254)	(1,668,753)	(1,499,917)	(1,724,699)	(1,785,603)	(1,854,660)	(1,927,404)
Surplus/Deficit - General Operation	806	(150,253)	(21,049)	(146,331)	(127,690)	(113,029)	(93,101)
Training & Education							
Revenues	38,950	146,800	198,074	200,000	206,000	212,000	218,000
Expenses	(61,248)	(154,967)	(166,273)	(220,790)	(220,550)	(230,850)	(241,863)
Surplus/Deficit - Training & Education	(22,298)	(8,167)	31,801	(20,790)	(14,550)	(18,850)	(23,863)
Audit Program - Revenues	2,855,048	3,028,560	3,018,622	3,003,600	3,177,920	3,274,736	3,409,889
- Expenses	(2,926,942)	(3,108,668)	(2,953,987)	(3,019,485)	(3,194,604)	(3,267,940)	(3,390,758)
Surplus/Deficit - Audit	(71,894)	(80,108)	64,635	(15,885)	(16,684)	6,796	19,131
Special Projects - Revenues	835,842	788,593	799,114	844,139	915,656	984,880	1,061,721
- Expenses	(968,039)	(884,384)	(784,423)	(812,253)	(861,332)	(903,223)	(948,000)
Surplus/Deficit - Special Projects	(132,197)	(95,791)	14,691	31,886	54,324	81,657	113,721
Enterprise Auto Project - Transfers	150,000	140,000	140,000	100,000	80,000	60,000	40,000
- Expenses	(180,492)	(573,355)	(270,812)	(250,939)	(114,916)	(97,604)	(50,000)
Surplus/Deficit - Enterprise	(30,492)	(433,355)	(130,812)	(150,939)	(34,916)	(37,604)	(10,000)
Administrative Services - Revenues	1,036,369	1,158,217	1,055,474	1,183,221	1,310,110	1,384,009	1,466,042
- Expenses	(1,036,369)	(1,158,217)	(1,055,474)	(1,183,221)	(1,310,110)	(1,384,009)	(1,466,042)
Surplus/Deficit - Admin. Expenses	0	0	0	0	0	0	0
Other Appropriated Fund Expenditures	(55,654)	(26,653)	(7,890)	0			
Inter-MTC Program Transactions							
Revenues - Audit Program receipts from Nexus Program	(28,700)	(16,000)	(5,400)	(10,000)	(10,400)	(10,816)	(11,249)
Revenues - Admin. Services from other MTC Programs	(1,036,369)	(1,158,217)	(1,055,474)	(1,183,221)	(1,310,110)	(1,384,009)	(1,466,042)
Transfers - Receipts from other MTC Programs	(150,000)	(140,000)	(140,000)	(100,000)	(80,000)	(60,000)	(40,000)
Expenses - MTC Program payments to DB Design	150,000	140,000	140,000	100,000	80,000	60,000	40,000
Expenses - Nexus Program payments to Audit Program	28,700	16,000	5,400	10,000	10,400	10,816	11,249
Expenses - MTC Program payments to Admin. Services	1,036,369	1,158,217	1,055,474	1,183,221	1,310,110	1,384,009	1,466,042
TOTAL OPERATIONS -							
- Revenues (Net of transfers)	5,166,200	5,466,453	5,489,278	5,616,107	5,947,089	6,202,431	6,512,664
- Expenses	(5,477,929)	(6,260,780)	(5,537,902)	(5,918,166)	(6,086,605)	(6,283,461)	(6,506,776)
Surplus/Deficit - Total All Programs	(311,729)	(794,327)	(48,624)	(302,059)	(139,516)	(81,030)	5,888

SPECIAL PROJECTS BUDGET SUMMARY							
LINE ITEMS	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	ACTUAL	APPROVED	ESTIMATED	PROPOSED	PROJECTED	PROJECTED	PROJECTED
Deregulation Project							
Total Revenues		0	0	0	0	0	0
Expenses	(44,972)	0	(5,663)	0	0	0	0
Surplus/Deficit - Deregulation Project	(44,972)	0	(5,663)	0	0	0	0
National Nexus Program							
Total Revenues	735,012	788,593	799,114	844,139	915,656	984,880	1,061,721
Expenses	(825,376)	(884,384)	(778,760)	(812,253)	(861,332)	(903,223)	(948,000)
Surplus/Deficit - National Nexus Program	(90,364)	(95,791)	20,354	31,886	54,324	81,657	113,721
Special Audit							
Total Revenues	100,830	0	0	0	0	0	0
Expenses	(97,691)	0	0	0	0	0	0
Surplus/Deficit - Special Audit	3,139	0	0	0	0	0	0
TOTAL SPECIAL PROJECTS							
Revenues	835,842	788,593	799,114	844,139	915,656	984,880	1,061,721
Expenses	(968,039)	(884,384)	(784,423)	(812,253)	(861,332)	(903,223)	(948,000)
Surplus/Deficit - Total All Projects	(132,197)	(95,791)	14,691	31,886	54,324	81,657	113,721
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BUDGET AND FUND BALANCE SUMMARY							
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	
	ACTUAL	APPROVED	ESTIMATED	PROJECTED	PROJECTED	PROJECTED	
BEGINNING FUND BALANCES:							
Unappropriated (TOTAL)	866,127	736,437	736,437	776,824	558,818	364,894	202,312
Appropriated (TOTAL)	809,519	732,593	732,593	594,110	443,171	408,255	370,651
Restricted (TOTAL)	402,631	237,460	237,460	230,151	238,037	308,361	386,018
TOTAL	2,078,277	1,706,490	1,706,490	1,601,085	1,260,026	1,081,510	958,980
UNAPPROPRIATED							
General Operations Program - Change from Current Operations	806	(150,253)	(21,049)	(146,331)	(127,690)	(113,029)	(93,101)
From Future of Multistate Taxation to fund current operations (Unappropriated)							
Training & Education - Change from Current Operations	(22,298)	(8,167)	31,801	(20,790)	(14,550)	(18,850)	(23,863)
Audit Program - Change from Current Operations	(71,894)	(80,108)	64,635	(15,885)	(16,684)	6,796	19,131
Automation Plan - Transfer to this fund of value of purchased hardware & software							
Future of Multistate Taxation - Appropriation by Executive Committee							
Cooperative Auditing Study - Appropriation by Executive Committee							
Enterprise Auto. Project - Appropriation of funds by Executive Committee	0		75,387	(183,006)	(158,924)	(125,083)	(97,833)
TOTAL - UNAPPROPRIATED	(93,386)	(238,528)	75,387	(183,006)	(158,924)	(125,083)	(97,833)
APPROPRIATED							
Automation Plan - Purchase of hardware & software							
Enterprise Auto. - Appropriation of funds by Executive Committee	0		0	0	0	0	0
Enterprise Auto. Project - Purchase of services	(21,272)	(433,355)	(130,812)	(150,939)	(34,916)	(37,604)	(10,000)
Nexus Support - Appropriation of new funds by Executive Committee							
Future of Multistate Taxation - Appropriation by Executive Committee							
Use of Future of Multistate Taxation funds	(12,410)	(20,000)	0	0			
Appropriation (Expenditure) of Cooperative Audit Study Fund	0						
Membership Development - Addition (Expenditure)							
Nexus Activities + Education - Expenditure of funds	(43,244)	(6,653)	(7,671)	0			
TOTAL - APPROPRIATED	(76,926)	(460,008)	(138,483)	(150,939)	(34,916)	(37,604)	(10,000)
RESTRICTED FUNDS							
Special Projects - Current	(132,197)	(95,791)	14,691	31,886	54,324	81,657	113,721
Refund - Property Tax / Unitary Exchange Fund Balance (Project ended)	(24,000)	(18,000)	(18,000)	0			
Nexus Support - Appropriation of funds by Executive Committee	(156,197)	(113,791)	(3,309)	31,886	54,324	81,657	113,721
TOTAL - RESTRICTED	(36,304)	(55,000)	(35,000)	(35,000)	(35,000)	(37,500)	(40,000)
Audit Related Accruals:							
Unappropriated	(8,974)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
Appropriated	(8,278)	(39,000)	(39,000)	(39,000)	(41,500)	(44,000)	(44,000)
Restricted							
TOTAL - Audit Related Accruals	(17,252)	(43,000)	(43,000)	(43,000)	(45,500)	(48,000)	(48,000)
Surplus/Deficit (Net of Adjustments):							
Unappropriated	(129,690)	(273,528)	40,387	(218,006)	(193,924)	(162,583)	(137,833)
Appropriated	(76,926)	(460,008)	(138,483)	(150,939)	(34,916)	(37,604)	(10,000)
Restricted	(165,171)	(117,791)	(7,309)	27,886	50,324	77,657	109,721
TOTAL - Surplus / (Deficits)	(371,787)	(851,327)	(105,405)	(341,059)	(178,516)	(122,530)	(38,112)
ENDING FUND BALANCES:							
Unappropriated (TOTAL)	736,437	462,909	776,824	558,818	364,894	202,312	64,479
Appropriated (TOTAL)	732,593	272,585	594,110	443,171	408,255	370,651	360,651
Restricted (TOTAL)	237,460	119,669	230,151	258,037	308,361	386,018	495,739
TOTAL	1,706,490	855,163	1,601,085	1,260,026	1,081,510	958,980	920,868

REVENUE SUMMARY

	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	ACTUAL	APPROVED	ESTIMATED	PROPOSED	PROJECTED	PROJECTED	PROJECTED
REVENUES BY PROGRAM							
General Operations	1,465,060	1,518,500	1,478,868	<i>1,578,368</i>	1,657,911	1,741,631	1,834,301
Enterprise Automation Project	150,000	140,000	140,000	<i>100,000</i>	80,000	60,000	40,000
Training Programs	38,950	146,800	198,074	<i>200,000</i>	206,000	212,000	218,000
Audit	2,855,048	3,028,560	3,018,622	<i>3,003,600</i>	3,177,920	3,274,736	3,409,889
Special Projects (Net of Transfers)	735,015	788,594	799,115	<i>828,901</i>	899,276	967,271	1,042,792

Total	5,244,073	5,622,454	5,634,679	5,710,869	6,021,107	6,255,638	6,544,982
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REVENUES BY TYPE

Member Assessments	1,440,000	1,483,000	1,445,840	<i>1,537,868</i>	1,614,411	1,695,131	1,779,801
Member Audit Reimbursements	2,838,463	2,998,000	2,990,400	<i>2,983,600</i>	3,153,920	3,248,736	3,371,889
Interest	25,535	35,000	40,793	<i>35,000</i>	42,000	47,000	69,500
Special Project Fees	729,527	780,594	790,159	<i>823,901</i>	893,276	960,271	1,032,292
Equipment Sales	24						
Training Program Fees	42,910	160,360	206,355	200,000	206,000	212,000	218,000
Conference Fees	16,769	25,000	17,640	30,000	31,000	32,000	33,000
Enterprise Automation Project	150,000	140,000	140,000	100,000	80,000	60,000	40,000
Miscellaneous	845	500	3,492	500	500	500	500

Total	5,244,073	5,622,454	5,634,679	5,710,869	6,021,107	6,255,638	6,544,982
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GENERAL OPERATIONS SUMMARY						
2003/04 ACTUAL	<u>2004/05 APPROVED ESTIMATED</u>	<u>2005/06 PROPOSED</u>	<u>2006/07 PROJECTED</u>	<u>2007/08 PROJECTED</u>	<u>2008/09 PROJECTED</u>	<u>2008/09 PROJECTED</u>
REVENUES BY PROGRAM BY TYPE						
GENERAL OPERATIONS						
Member Assessments	1,440,000	1,483,000	1,445,840	1,614,413	1,695,131	1,779,803
Interest	7,446	10,000	11,896	12,000	14,000	21,000
Special Project Transfers		0	0	0	0	0
Contract Revenues		0	0	0	0	0
Publications Revenues		0	0	0	0	0
Conference Fees	16,769	25,000	17,640	31,000	32,000	33,000
Miscellaneous	845	500	3,492	500	500	500
Uniformity		0	0	0	0	0
Subtotal General Operation	1,465,060	1,518,500	1,478,868	1,657,913	1,741,631	1,834,303
EXPENSES BY TYPE						
Personnel	639,004	701,441	639,232	778,610	810,621	844,134
Operating Expenses	534,523	629,886	560,419	613,916	629,322	644,704
Furniture & Equipment	3,522	4,500	7,201	4,500	4,500	4,500
Administrative Services Allocation	287,205	332,926	293,065	388,577	410,217	434,066
	1,464,254	1,668,753	1,499,917	1,785,603	1,854,660	1,927,404
SURPLUS / DEFICIT	806	(150,253)	(21,049)	(127,690)	(113,029)	(93,101)

TRAINING & EDUCATION PROGRAM SUMMARY

	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>
	<u>ACTUAL</u>	<u>APPROVED</u>	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>
REVENUES BY PROGRAM BY TYPE						
TRAINING & EDUCATION						
Audit Sampling School Fees	13,750	19,800	61,268	45,000	47,000	51,000
Nexus School Fees	25,200	74,000	100,680	100,000	102,000	106,000
Fees from other schools	0	53,000	36,126	55,000	57,000	61,000
Subtotal Training & Education	38,950	146,800	198,074	200,000	206,000	212,000
EXPENSES BY TYPE						
Personnel	17,855	18,059	17,819	72,181	75,143	81,690
Operating Expenses	31,356	101,108	115,431	100,825	94,945	98,993
Furniture & Equipment	0	6,000	0	3,000	3,000	3,000
Administrative Services Allocation	12,037	29,800	33,023	44,784	47,462	50,519
	61,248	154,967	166,273	220,790	220,550	230,850
SURPLUS / DEFICIT	(22,298)	(8,167)	31,801	(20,790)	(14,550)	(18,850)
					241,863	(23,863)

REVENUE / MEMBERSHIP ASSESSMENTS - MEMBER STATES

	2003/04	2004/05		PROJECTED LAST YEAR FOR	2005/06	2006/07	2007/08	2008/09
	<u>ACTUAL</u>	<u>APPROVED</u>	<u>ESTIMATED</u>	2005/06	<u>PROPOSED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>
Alabama	39,408	40,443	40,443	42,543	44,546	47,912	50,308	52,820
Alaska	7,596	7,621	7,621	8,017	9,118	9,597	10,077	10,581
Arkansas	30,587	31,671	31,671	33,316	35,075	37,670	39,554	41,529
California	420,243	437,219	437,219	459,920	497,549	537,825	564,716	592,923
Colorado	50,193	49,191	49,191	51,745	53,115	57,179	60,038	63,037
District of Columbia	14,906	15,541	15,541	16,347	18,339	19,570	20,549	21,575
Florida	105,769	111,480	74,320	117,268	39,238	0	0	0
Hawaii	21,133	22,245	22,245	23,400	24,852	26,614	27,944	29,340
Idaho	15,101	15,806	15,806	16,627	18,211	19,431	20,403	21,422
Kansas	30,383	31,409	31,409	33,039	36,868	39,608	41,588	43,666
Kentucky	40,940	42,953	42,953	45,183	45,435	48,873	51,317	53,880
Louisiana	32,367	31,809	31,809	33,460	34,606	37,163	39,021	40,970
Maine	16,858	17,401	17,401	18,305	0	0	0	0
Michigan	99,046	97,500	97,500	102,562	101,455	109,458	114,931	120,671
Minnesota	61,263	63,029	63,029	66,302	68,351	73,657	77,340	81,202
Missouri	56,246	56,776	56,776	59,724	60,966	65,670	68,954	72,397
Montana	8,876	9,056	9,056	9,527	10,286	10,860	11,403	11,973
New Jersey	85,349	93,552	93,552	98,409	101,444	109,445	114,917	120,658
New Mexico	24,230	24,482	24,482	25,753	27,189	29,141	30,598	32,126
North Dakota	9,585	10,027	10,027	10,548	10,830	11,449	12,021	12,622
Oregon	27,643	30,316	30,316	31,890	34,212	36,736	38,573	40,500
South Dakota	9,428	9,814	9,814	10,324	10,801	11,418	11,989	12,588
Texas	138,725	136,357	136,357	143,436	149,755	161,693	169,777	178,258
Utah	26,108	26,606	26,606	27,988	28,929	31,022	32,573	34,200
Washington	59,793	61,779	61,779	64,987	66,805	71,985	75,584	79,359
Wyoming	8,222	8,917	8,917	9,380	9,894	10,437	10,958	11,506
TOTAL	1,440,000	1,483,000	1,445,840	1,560,000	1,537,868	1,614,413	1,695,131	1,779,803

APPORTIONMENT OF 2005/06 MEMBERSHIP ASSESSMENTS

	STATES' FISCAL 03/04 REVENUES UNDER COMPACT (MILLIONS)	% OF TOTAL	EQUAL SHARE OF 10%	APPORTIONED SHARE OF 90%	TOTAL SHARE 2005/06 PROPOSED
Alabama	6,445.65	2.599%	6,291	38,255	44,546
Alaska	476.32	0.192%	6,291	2,827	9,118
Arkansas	4,849.97	1.955%	6,291	28,784	35,075
California - BOE & FTB	82,773.76	33.372%	6,291	491,259	497,549
Colorado	7,889.54	3.181%	6,291	46,824	53,115
District of Columbia	2,030.08	0.818%	6,291	12,048	18,339
Florida	18,774.06	7.569%	2,097	37,141	39,238
Hawaii	3,127.45	1.261%	6,291	18,561	24,852
Idaho	2,008.40	0.810%	6,291	11,920	18,211
Kansas	5,152.01	2.077%	6,291	30,577	36,868
Kentucky	6,595.51	2.659%	6,291	39,144	45,435
Louisiana	4,770.98	1.924%	6,291	28,316	34,606
Maine	2,188.89	0.883%	6,291	12,991	19,282
Michigan	16,034.51	6.465%	6,291	95,164	101,455
Minnesota	10,456.71	4.216%	6,291	62,060	68,351
Missouri	9,212.38	3.714%	6,291	54,675	60,966
Montana	673.07	0.271%	6,291	3,995	10,286
New Jersey	16,032.60	6.464%	6,291	95,153	101,444
New Mexico	3,521.16	1.420%	6,291	20,898	27,189
North Dakota	764.80	0.308%	6,291	4,539	10,830
Oregon	4,704.56	1.897%	6,291	27,921	34,212
South Dakota	759.96	0.306%	6,291	4,510	10,801
Texas	24,172.68	9.746%	6,291	143,464	149,755
Utah	3,814.32	1.538%	6,291	22,638	28,929
Washington	10,196.22	4.111%	6,291	60,514	66,805
Wyoming	607.10	0.245%	6,291	3,603	9,894
TOTAL	248,032.69	100.000%	159,369	1,397,780	1,557,150

REVENUE/PROJECT FEES - NATIONAL NEXUS PROGRAM							
	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	ACTUAL	APPROVED	ESTIMATED	PROPOSED	PROJECTED	PROJECTED	PROJECTED
Alabama	16,646	17,809	17,809	18,858	20,272	21,793	23,427
Alaska	8,203	8,778	8,778	9,186	9,875	10,616	11,412
Arizona	21,509	23,009	23,009	24,263	26,083	28,039	30,142
Arkansas	15,102	16,158	16,158	17,011	18,287	19,658	21,133
California	38,372	41,248	41,248	44,233	47,550	51,117	54,951
California - pending for FY05/06 & beyond	(38,372)	(41,248)	(41,248)	(44,233)	(47,550)	(51,117)	(54,951)
Colorado	17,322	18,531	18,531	19,777	21,260	22,855	24,569
Connecticut	23,313	24,938	24,938	26,298	28,270	30,391	32,670
District of Columbia	13,371	14,510	14,510	15,888	17,080	18,361	19,738
Florida	31,359	33,526	33,526	35,262	45,488	48,900	52,567
Hawaii	14,231	15,227	15,227	16,052	17,256	18,550	19,941
Idaho	13,439	14,381	14,381	15,180	16,319	17,542	18,858
Iowa	18,912	20,234	20,234	21,081	22,662	24,362	26,189
Kansas	15,441	16,520	16,520	17,362	18,664	20,064	21,569
Kentucky	17,512	18,735	18,735	19,659	21,133	22,718	24,422
Louisiana	17,813	19,056	19,056	19,415	20,871	22,436	24,119
Maine	13,649	14,605	14,605	15,238	16,381	17,609	18,930
Maryland	23,783	25,441	25,441	26,990	29,014	31,190	33,530
Massachusetts	29,787	31,858	31,858	34,370	36,948	39,719	42,698
Michigan	28,872	30,876	30,876	31,622	33,994	36,543	39,284
Minnesota	22,490	24,055	24,055	25,246	27,139	29,175	31,363
Missouri	18,544	19,837	19,837	20,926	22,495	24,183	25,996
Montana	8,049	8,614	8,614	9,101	9,784	10,517	11,306
Nebraska	16,722	17,893	17,893	18,738	20,143	21,654	23,278
New Hampshire	9,689	10,368	10,368	10,928	11,748	12,629	13,576
New Jersey	26,469	28,308	28,308	30,500	32,788	35,247	37,890
North Carolina	28,956	30,970	30,970	32,580	35,024	37,650	40,474
North Dakota	12,442	13,315	13,315	13,898	14,940	16,061	17,265
Ohio	33,258	35,567	35,567	36,978	39,751	42,733	45,938
Oklahoma	19,561	20,928	20,928	22,384	24,063	25,868	27,808
Oregon	11,978	12,812	12,812	13,324	14,323	15,398	16,552
Rhode Island	15,787	16,894	16,894	17,872	19,212	20,653	22,202
South Carolina	20,085	21,487	21,487	22,449	24,133	25,943	27,888
South Dakota	7,830	8,379	8,379	8,812	9,473	10,183	10,947
Tennessee	21,445	22,941	22,941	24,257	26,076	28,032	30,134
Texas	34,136	36,503	36,503	39,836	42,824	46,035	49,488
Utah	14,763	15,796	15,796	16,571	17,814	19,150	20,586
Vermont		9,565	9,565	16,677	17,928	19,272	20,718
Washington	16,045	17,160	17,160	18,268	19,638	21,111	22,694
West Virginia	17,081	18,277	18,277	19,164	20,601	22,146	23,807
Wisconsin	26,153	27,974	27,974	28,272	30,392	32,672	35,122
Wyoming	7,777	8,323	8,323	8,846	9,509	10,223	10,989
TOTAL PER BUDGET	729,524	780,593	790,158	839,139	909,656	977,880	1,051,221

EXPENDITURES SUMMARY

	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	ACTUAL	APPROVED	ESTIMATED	PROPOSED	PROJECTED	PROJECTED	PROJECTED
EXPENDITURES BY PROGRAM							
General Operation	1,464,254	1,668,753	1,499,917	1,724,699	1,785,603	1,854,660	1,927,404
Enterprise Automation Plan	180,492	573,355	270,812	250,939	114,916	97,604	50,000
Training & Education	61,248	154,967	166,273	220,790	220,550	230,850	241,863
Audit	2,926,942	3,108,668	2,953,987	3,019,485	3,194,604	3,267,940	3,390,758
Special Projects	968,039	884,384	784,423	812,253	861,332	903,223	948,000
Administrative Services Dept.	0	0	0	0	0	0	0
TOTAL EXPENDITURES	5,600,975	6,390,127	5,675,412	6,028,166	6,177,005	6,354,277	6,558,025
Less: Interorganization expenditures	(178,700)	(156,000)	(145,400)	(110,000)	(90,400)	(70,816)	(51,249)
Plus: Other Appro. Fund expenditures	55,654	26,653	7,890				
TOTAL EXPENDITURES-ADJUSTED	5,477,929	6,260,780	5,537,902	5,918,166	6,086,605	6,283,461	6,506,776
EXPENDITURES BY MAJOR TYPE							
Personnel	3,857,712	4,186,936	3,835,869	4,181,087	4,336,677	4,522,716	4,717,122
Operating Expenses	1,653,467	2,019,376	1,723,890	1,816,577	1,772,328	1,806,058	1,816,405
Equipment	89,796	183,815	115,652	30,500	68,000	25,500	24,500
Administrative Services Allocation	0	0	1	2	0	3	(2)
TOTAL EXPENDITURES	5,600,975	6,390,127	5,675,412	6,028,166	6,177,005	6,354,277	6,558,025
Less: Interorganization expenditures	(178,700)	(156,000)	(145,400)	(110,000)	(90,400)	(70,816)	(51,249)
Plus: Other Appro. Fund expenditures	55,654	26,653	7,890				
TOTAL EXPENDITURES-ADJUSTED	5,477,929	6,260,780	5,537,902	5,918,166	6,086,605	6,283,461	6,506,776

EXPENDITURES SUMMARY - BY PROGRAM

	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	ACTUAL	APPROVED	ESTIMATED	PROPOSED	PROJECTED	PROJECTED	PROJECTED
GENERAL OPERATIONS							
Personnel	639,004	701,441	639,232	764,573	778,610	810,621	844,134
Operating Expenses	534,523	629,886	560,419	600,715	613,916	629,322	644,704
Equipment	3,522	4,500	7,201	6,000	4,500	4,500	4,500
Administrative Services Allocation	287,205	332,926	293,065	353,411	388,577	410,217	434,066
Subtotal - General Operations	1,464,254	1,668,753	1,499,917	1,724,699	1,785,603	1,854,660	1,927,404
ENTERPRISE AUTOMATION PROJECT							
Personnel	87,931	145,448	96,286	155,939	39,916	22,604	0
Operating Expenses	80,628	278,592	110,130	95,000	75,000	75,000	50,000
Equipment	11,933	149,315	64,396	0	0	0	0
Administrative Services Allocation	0	0	0	0	0	0	0
Subtotal - Enterprise Auto. Project	180,492	573,355	270,812	250,939	114,916	97,604	50,000
TRAINING & EDUCATION							
Personnel	17,855	18,059	17,819	72,181	75,143	78,338	81,690
Operating Expenses	31,356	101,108	115,431	100,825	94,945	98,993	103,254
Equipment	0	6,000	0	3,000	3,000	3,000	3,000
Administrative Services Allocation	12,037	29,800	33,023	44,784	47,462	50,519	53,919
Subtotal - Training & Education	61,248	154,967	166,273	220,790	220,550	230,850	241,863
AUDIT							
Personnel	1,823,999	1,959,476	1,867,582	1,861,475	1,938,385	2,022,123	2,109,030
Operating Expenses	492,842	517,318	486,905	527,194	520,562	515,803	511,670
Equipment	43,436	12,500	23,117	12,500	49,500	7,000	6,000
Administrative Services Allocation	566,665	619,374	576,383	618,316	686,157	723,014	764,058
Subtotal - Audit	2,926,942	3,108,668	2,953,987	3,019,485	3,194,604	3,267,940	3,390,758
SPECIAL PROJECTS							
Personnel	561,744	550,413	456,913	506,303	528,464	551,890	576,530
Operating Expenses	228,666	153,854	170,506	137,738	144,954	151,071	157,473
Equipment	7,167	4,000	4,000	1,500	0	0	0
Administrative Services Allocation	170,462	176,117	153,004	166,712	187,914	200,262	213,997
Subtotal - Special Projects	968,039	884,384	784,423	812,253	861,332	903,223	948,000
ADMINISTRATIVE SERVICES							
Personnel	727,179	812,099	758,037	820,616	976,159	1,037,140	1,105,738
Operating Expenses	285,452	338,618	280,499	355,105	322,951	335,869	349,304
Equipment	23,738	7,500	16,938	7,500	11,000	11,000	11,000
Administrative Services Allocation	(1,036,369)	(1,158,217)	(1,055,474)	(1,183,221)	(1,310,110)	(1,384,009)	(1,466,042)
Subtotal - Administrative Services	0	0	0	0	0	0	0
TOTAL EXPENDITURES	5,600,975	6,390,127	5,675,412	6,028,166	6,177,005	6,354,277	6,558,025

GENERAL OPERATIONS EXPENDITURES SUMMARY - PAGE 1 OF 2							
	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	ACTUAL	APPROVED	ESTIMATED	PROPOSED	PROJECTED	PROJECTED	PROJECTED
<u>Executive</u>							
Personnel Expenses	193,871	196,261	167,162	262,232	247,299	257,446	268,068
Operating Expenses	124,426	139,886	132,410	131,462	131,378	136,633	142,099
Furniture & Equipment	0	500	3,201	2,000	2,000	2,000	2,000
Administrative Services Allocation	77,851	84,061	73,071	101,909	105,668	112,267	119,583
Subtotal Executive	396,148	420,708	375,844	497,603	486,345	508,346	531,750
<u>Legal</u>							
Personnel Expenses	361,873	389,056	374,103	383,515	404,506	421,201	438,684
Operating Expenses	101,165	134,130	100,701	115,307	119,379	123,614	128,019
Furniture & Equipment	0	3,000	3,000	3,000	1,500	1,500	1,500
Administrative Services Allocation	113,253	130,833	116,125	129,122	146,187	155,209	165,221
Subtotal Legal	576,291	657,019	593,929	630,944	671,572	701,524	733,424
<u>Policy, Research & Communications</u>							
Personnel Expenses	83,260	116,124	97,967	118,826	126,805	131,974	137,382
Operating Expenses	21,894	47,370	31,291	37,921	42,073	43,356	44,690
Furniture & Equipment	3,522	1,000	1,000	1,000	1,000	1,000	1,000
Administrative Services Allocation	25,719	40,885	31,597	40,575	47,125	49,949	53,083
Subtotal Policy, Research & Comm.	134,395	205,379	161,855	198,322	217,003	226,279	236,155
<u>Legislative</u>							
Personnel Expenses							
Operating Expenses	244,683	265,000	258,769	268,000	271,500	275,000	278,000
Furniture & Equipment							
Administrative Services Allocation	59,846	66,269	63,238	69,373	75,761	78,344	81,050
Subtotal Legislative	304,529	331,269	322,007	337,373	347,261	353,344	359,050
<u>Technical Committees</u>							
Personnel Expenses							
Operating Expenses	8,121	9,000	4,775	9,000	9,000	9,000	9,000
Furniture & Equipment							
Administrative Services Allocation	1,986	2,251	1,169	2,330	2,511	2,564	2,624
Subtotal Advisory Committees	10,107	11,251	5,944	11,330	11,511	11,564	11,624

GENERAL OPERATIONS EXPENDITURES SUMMARY - PAGE 2 OF 2							
	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	ACTUAL	APPROVED	ESTIMATED	PROPOSED	PROJECTED	PROJECTED	PROJECTED
<u>Business-Government Dialogue Day</u>							
Personnel Expenses							
Operating Expenses				8,525	8,866	9,125	9,394
Furniture & Equipment							
Administrative Services Allocation				2,207	2,474	2,599	2,738
Subtotal Business-Gov't Dialogue Day		0	0	10,732	11,340	11,724	12,132
<u>Annual Meeting</u>							
Personnel Expenses							
Operating Expenses	34,234	34,500	32,473	30,500	31,720	32,594	33,502
Furniture & Equipment							
Administrative Services Allocation	8,550	8,627	7,865	7,895	8,851	9,285	9,767
Subtotal Annual Meeting	42,784	43,127	40,338	38,395	40,571	41,879	43,269
<u>Total General Operating Expenses</u>							
Personnel Expenses	639,004	701,441	639,232	764,573	778,610	810,621	844,134
Operating Expenses	534,523	629,886	560,419	600,715	613,916	629,322	644,704
Furniture & Equipment	3,522	4,500	7,201	6,000	4,500	4,500	4,500
Administrative Services Allocation	287,205	332,926	293,065	353,411	388,577	410,217	434,066
Total (pages 1 and 2)	1,464,254	1,668,753	1,499,917	1,724,699	1,785,603	1,854,660	1,927,404

TRAINING & EDUCATION EXPENDITURES SUMMARY						
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	<u>ACTUAL APPROVED</u>		<u>ESTIMATED PROPOSED</u>		<u>PROJECTED PROJECTED</u>	
<u>Audit Sampling Schools</u>						
Personnel Expenses			7,685	8,010	8,358	8,724
Operating Expenses	4,516	9,850	19,528	16,253	17,553	18,957
Furniture & Equipment						
Administrative Services Allocation	1,105	2,463	4,878	6,770	7,382	8,070
Subtotal Audit Schools	5,621	12,313	24,406	31,033	33,293	35,751
<u>Nexus Schools</u>						
Personnel Expenses			23,325	24,319	25,379	26,492
Operating Expenses	15,716	34,700	54,483	36,088	37,532	39,033
Furniture & Equipment						
Administrative Services Allocation	3,844	8,677	13,747	16,856	17,922	19,104
Subtotal Nexus Schools	19,560	43,377	68,230	77,263	80,833	84,629
<u>Other Schools</u>						
Personnel Expenses			22,662	23,622	24,647	25,724
Operating Expenses	4,908	33,245	28,835	20,348	20,762	21,192
Furniture & Equipment		3,000				
Administrative Services Allocation	1,201	8,314	6,983	12,270	12,936	13,678
Subtotal Other Schools	6,109	44,559	35,818	56,240	58,345	60,594
<u>Training Program Management</u>						
Personnel Expenses	17,855	18,059	17,819	19,192	19,954	20,750
Operating Expenses	6,216	23,313	12,585	22,256	23,146	24,072
Furniture & Equipment		3,000	0	3,000	3,000	3,000
Administrative Services Allocation	5,887	10,346	7,415	11,566	12,279	13,067
Subtotal Training Program Management	29,958	54,718	37,819	56,014	58,379	60,889
<u>Total Training & Education Expenses</u>						
Personnel Expenses	17,855	18,059	17,819	75,143	78,338	81,690
Operating Expenses	31,356	101,108	115,431	94,945	98,993	103,254
Furniture & Equipment	0	6,000	0	3,000	3,000	3,000
Administrative Services Allocation	12,037	29,800	33,023	47,462	50,519	53,919
Total	61,248	154,967	166,273	220,550	230,850	241,863

ENTERPRISE AUTOMATION PROJECT

	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	<u>ACTUAL</u>	<u>APPROVED</u>	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>
Personnel Expenses	87,931	145,448	96,286	155,939	39,916	22,604	0
Operating Expenses	80,628	278,592	110,130	95,000	75,000	75,000	50,000
Furniture & Equipment	11,933	149,315	64,396	0	0	0	0
Administrative Services Allocation		0	0	0	0	0	0
Total Enterprise Automation Proje	180,492	573,355	270,812	250,939	114,916	97,604	50,000

AUDIT REIMBURSEMENTS - MTC JOINT AUDIT PROGRAM

	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	<u>ACTUAL</u>	<u>APPROVED</u>	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>
Alabama	145,650	150,000	150,000	157,500	166,500	171,500	178,000
Arkansas	145,650	150,000	150,000	157,500	166,500	171,500	178,000
Colorado							
Audit/Nexus Fee	162,972	168,531	168,531	177,277	187,761	194,355	202,569
Transfer to Nexus	(17,322)	(18,531)	(18,531)	(19,777)	(21,261)	(22,855)	(24,569)
Net Audit Fee	145,650	150,000	150,000	157,500	166,500	171,500	178,000
District of Columbia	131,085	135,000	135,000	141,750	149,850	154,350	160,200
Hawaii	145,650	150,000	150,000	157,500	166,500	171,500	178,000
Idaho	131,085	135,000	135,000	141,750	149,850	154,350	160,200
Kansas	145,650	150,000	150,000	157,500	166,500	171,500	178,000
Kentucky	145,650	150,000	150,000	157,500	166,500	171,500	178,000
Louisiana	65,543	90,000	90,000	94,500	99,900	102,900	106,800
Maine	145,650	150,000	150,000	0	0	0	0
Michigan	145,650	150,000	150,000	157,500	166,500	171,500	178,000
Minnesota	145,650	150,000	150,000	157,500	166,500	171,500	178,000
Missouri	87,390	90,000	90,000	94,500	99,900	102,900	106,800
Montana	78,651	81,000	81,000	85,050	89,910	92,610	96,120
Nebraska	104,868	108,000	108,000	113,400	119,880	123,480	128,160
New Jersey	145,650	150,000	150,000	157,500	166,500	171,500	178,000
New Mexico	87,390	90,000	90,000	94,500	99,900	102,900	106,800
North Dakota	131,085	135,000	135,000	141,750	149,850	154,350	160,200
Oregon	87,390	90,000	90,000	94,500	99,900	102,900	106,800
Utah	145,650	150,000	150,000	157,500	166,500	171,500	178,000
Washington	87,390	90,000	90,000	94,500	99,900	102,900	106,800
West Virginia	78,651	108,000	108,000	113,400	119,880	123,480	128,160
Wisconsin	131,085	180,000	180,000	189,000	199,800	205,800	213,600
National Nexus Program	28,700	16,000	5,400	10,000	10,400	10,816	11,249
Non-Receivables		0	0	0	0	0	0
TOTAL	2,832,463	2,998,000	2,987,400	2,983,600	3,153,920	3,248,736	3,371,889
Base Audit Fee	145,650	150,000	150,000	157,500	166,500	171,500	178,000

AUDIT SUMMARY

	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	<u>ACTUAL</u>	<u>APPROVED</u>	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>
Total Audit Revenues by Type							
Member Audit Reimbursements	2,849,785	3,016,531	3,005,931	3,003,377	3,175,181	3,271,591	3,396,458
Member Audit Reimbursements - Special Audits	6,000		3,000				
Transfer to General Operation	0	0	0	0	0	0	0
Transfer to Nexus Program	(17,322)	(18,531)	(18,531)	(19,777)	(21,261)	(22,855)	(24,569)
Member Audit Reimbursements - Net	2,838,463	2,998,000	2,990,400	2,983,600	3,153,920	3,248,736	3,371,889
Reimbursement - Audit Schools	2,200	5,280	5,280	0	0	0	0
Reimbursement - Nexus Schools		5,280	0	0	0	0	0
Interest & Other	14,385	20,000	22,942	20,000	24,000	26,000	38,000
Total Audit Revenues	2,855,048	3,028,560	3,018,622	3,003,600	3,177,920	3,274,736	3,409,889
Total Audit Expenses by Type							
Personnel Expenses	1,823,999	1,959,476	1,867,582	1,861,475	1,938,385	2,022,123	2,109,030
Operating Expenses	492,842	517,318	486,905	527,194	520,562	515,803	511,670
Furniture & Equipment	43,436	12,500	23,117	12,500	49,500	7,000	6,000
Administrative Services Allocation	566,665	619,374	576,383	618,316	686,157	723,014	764,058
Total Audit Expenses	2,926,942	3,108,668	2,953,987	3,019,485	3,194,604	3,267,940	3,390,758
Surplus/Deficit	(71,894)	(80,108)	64,635	(15,885)	(16,684)	6,796	19,131

AUDIT EXPENDITURES

AUDIT BUDGET	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	<u>ACTUAL</u>	<u>APPROVED</u>	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>
Chicago							
Personnel Expenses	999,886	1,082,158	1,099,064	1,141,517	1,188,622	1,240,316	1,293,593
Operating Expenses	208,731	219,263	229,028	248,973	258,932	269,290	280,061
Furniture & Equipment	28,914	7,500	7,500	7,500	33,000	3,000	2,000
Administrative Services Allocation	295,610	325,447	325,430	359,933	403,933	430,062	458,795
Total Chicago	1,533,141	1,634,368	1,661,022	1,757,923	1,884,487	1,942,668	2,034,449
New York							
Personnel Expenses	616,226	647,718	542,223	484,801	505,045	526,752	549,542
Operating Expenses	98,037	112,762	101,819	114,386	118,381	120,835	123,404
Furniture & Equipment	10,830	4,000	13,110	4,000	11,000	1,000	1,000
Administrative Services Allocation	174,698	190,174	157,414	155,102	173,964	184,487	196,195
Total New York	899,791	954,654	814,566	758,289	808,390	833,074	870,141
Houston							
Personnel Expenses	98,126	104,148	100,961	105,076	109,539	114,299	119,299
Operating Expenses	13,959	16,493	12,579	17,035	17,717	18,425	19,162
Furniture & Equipment	1,558	500	2,007	500	2,500	2,000	2,000
Administrative Services Allocation	27,414	30,169	27,786	31,609	35,510	37,811	40,368
Total Houston	141,057	151,310	143,333	154,220	165,266	172,535	180,829
Management							
Personnel Expenses	109,761	125,452	125,334	130,081	135,179	140,756	146,596
Operating Expenses	172,115	168,800	143,479	146,800	125,532	107,253	89,043
Furniture & Equipment	2,134	500	500	500	3,000	1,000	1,000
Administrative Services Allocation	68,943	73,584	65,753	71,672	72,750	70,654	68,700
Total Management	352,953	368,336	335,066	349,053	336,461	319,663	305,339

SPECIAL PROJECTS REVENUE SUMMARY

	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	<u>ACTUAL</u>	<u>APPROVED</u>	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>
REVENUE							
Special Audit Fees (FY 2004)	100,830	0	0	0	0	0	0
Deregulation Project Fees		0	0	0	0	0	0
Nexus Program Fees	729,524	780,593	790,158	839,139	909,656	977,880	1,051,221
Reimbursement from Nexus Schools	1,760	3,000	3,000	0	0	0	0
Interest	3,728	5,000	5,956	5,000	6,000	7,000	10,500
TOTAL REVENUE	835,842	788,593	799,114	844,139	915,656	984,880	1,061,721

SPECIAL PROJECTS EXPENDITURES SUMMARY

	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	<u>ACTUAL</u>	<u>APPROVED</u>	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>
EXPENDITURES							
Deregulation Project - Expenses							
Personnel	30,384	0	0	0	0	0	0
Operating Expenses	5,750	0	5,000	0	0	0	0
Equipment		0	0	0	0	0	0
Administrative Services Allocation	8,838	0	663	0	0	0	0
Deregulation Project - Total Expenses	44,972	0	5,663	0	0	0	0
National Nexus Program - Expenses							
Personnel	519,060	550,413	456,913	506,303	528,464	551,890	576,530
Operating Expenses	142,472	153,854	165,506	137,738	144,954	151,071	157,473
Equipment	2,220	4,000	4,000	1,500	0	0	0
Administrative Services Allocation	161,624	176,117	152,341	166,712	187,914	200,262	213,997
National Nexus Program - Total Expenses	825,376	884,384	778,760	812,253	861,332	903,223	948,000
Special Audit (FY 2004) - Expenses							
Personnel	12,300	0	0	0	0	0	0
Operating Expenses	80,444	0	0	0	0	0	0
Equipment	4,947	0	0	0	0	0	0
Administrative Services Allocation		0	0	0	0	0	0
Property Tax Project - Total Expenses	97,691	0	0	0	0	0	0
Unitary Exchange - Expenses							
Personnel		0	0	0	0	0	0
Operating Expenses		0	0	0	0	0	0
Equipment		0	0	0	0	0	0
Administrative Services Allocation		0	0	0	0	0	0
Unitary Exchange - Total Expenses		0	0	0	0	0	0
TOTAL EXPENDITURES	968,039	884,384	784,423	812,253	861,332	903,223	948,000
SURPLUS / DEFICIT	(132,197)	(95,791)	14,691	31,886	54,324	81,657	113,721

ADMINISTRATIVE SERVICES EXPENSES

	2003/04	2004/05		2005/06	2006/07	2007/08	2008/09
	<u>ACTUAL</u>	<u>APPROVED</u>	<u>ESTIMATED</u>	<u>PROPOSED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>	<u>PROJECTED</u>
Personnel Expenses	727,179	812,099	758,037	820,616	976,159	1,037,140	1,105,738
Operating Expenses	285,452	338,618	280,499	355,105	322,951	335,869	349,304
Furniture & Equipment	23,738	7,500	16,938	7,500	11,000	11,000	11,000
Administrative Services Allocation	#####	(1,158,217)	(1,055,474)	(1,183,221)	(1,310,110)	(1,384,009)	(1,466,042)
Total Administrative Services	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Multistate Tax Commission

Actual Salary Scale 2004 - 2005

Actual Salary Scale 2005 - 2006

These schedules have updated for FY 2005/2006 with a _____% increase in the base salary amounts from FY 2004/2005 at the Entry and Six-Month level and 3.00% at the Ending level.

Position Classification	Fiscal Year	Entry	Six-Month	Ending
Administrative Assistant I	2004-2005	\$25,575	\$26,850	\$33,900
	2005-2006	\$26,343	\$27,655	\$34,917
Administrative Assistant I	2004-2005	\$29,775	\$31,270	\$38,975
	2005-2006	\$30,668	\$32,208	\$40,145
Executive Assistant	2004-2005	\$38,875	\$40,825	\$48,825
	2005-2006	\$40,041	\$42,050	\$50,290
Bookkeeper/Accountant I	2004-2005	\$35,330	\$37,100	\$45,050
	2005-2006	\$36,389	\$38,213	\$46,402
Bookkeeper/Accountant I	2004-2005	\$41,750	\$43,825	\$50,800
	2005-2006	\$43,003	\$45,140	\$52,324
Administrative Officer I	2004-2005	\$48,475	\$50,925	\$59,800
	2005-2006	\$49,930	\$52,452	\$61,594
Administrative Officer I	2004-2005	\$53,721	\$56,421	\$66,349
	2005-2006	\$55,332	\$58,114	\$68,339
Computer Network Specialist - Trainee	2004-2005	\$40,350	\$42,375	\$50,425
	2005-2006	\$41,561	\$43,646	\$51,937
Computer Network Specialist	2004-2005	\$54,000	\$56,725	\$67,325
	2005-2006	\$55,620	\$58,427	\$69,344
Information Systems Manager I	2004-2005	\$59,350	\$62,325	\$73,475
	2005-2006	\$61,131	\$64,195	\$75,680
Information Systems Manager I	2004-2005	\$65,950	\$69,250	\$81,025
	2005-2006	\$67,929	\$71,328	\$83,456
Director of Information System	2004-2005	\$73,550	\$77,225	\$90,025
	2005-2006	\$75,756	\$79,542	\$92,726

Position Classification	Fiscal Year	Entry	Six-Month	Ending
Joint Auditor A	2004-2005	\$51,150	\$53,700	\$63,725
	2005-2006	\$52,684	\$55,311	\$65,637
Joint Auditor B	2004-2005	\$54,700	\$57,425	\$67,645
	2005-2006	\$56,341	\$59,148	\$69,674
Senior Joint Auditor	2004-2005	\$60,275	\$63,275	\$74,500
	2005-2006	\$62,083	\$65,173	\$76,736
Supervising Auditor	2004-2005	\$68,495	\$71,920	\$84,644
	2005-2006	\$70,550	\$74,077	\$87,184
Audit Supervisor/Administrator	2004-2005	\$72,100	\$75,700	\$91,275
	2005-2006	\$74,263	\$77,971	\$94,013
Computer Audit Specialist	2004-2005	\$63,450	\$66,625	\$79,225
	2005-2006	\$65,354	\$68,624	\$81,601
Director of Audit	2004-2005	\$78,550	\$82,475	\$97,875
	2005-2006	\$80,906	\$84,949	\$100,812
Paralegal	2004-2005	\$36,675	\$38,500	\$47,325
	2005-2006	\$37,776	\$39,655	\$48,745
Assistant Counsel	2004-2005	\$56,025	\$58,850	\$76,900
	2005-2006	\$57,706	\$60,615	\$79,207
Counsel I	2004-2005	\$63,750	\$66,925	\$81,650
	2005-2006	\$65,663	\$68,933	\$84,099
Counsel II	2004-2005	\$70,925	\$74,475	\$88,975
	2005-2006	\$73,053	\$76,709	\$91,644

Statements of Changes in Fund Balance							
Appropriated Funds							
For the Years Ended June 30,							
Description	State Tax Compliance	Future of Multistate Taxation	Enterprise Automation Project	Membership Development	Nexus Activities	Nexus Education	Total
Fund Balance: June 30, 2004 - audited	\$23,918	\$25,146	\$557,004	\$28,855	\$90,000	\$7,671	\$732,594
Appropriations - requested							\$0
Expenditures - estimated			(\$130,811)			(\$7,671)	(\$138,482)
Fund Balance: June 30, 2005 - est.	\$23,918	\$25,146	\$426,193	\$28,855	\$90,000	\$0	\$594,112
Appropriations - requested							\$0
Expenditures - estimated			(\$150,939)				(\$150,939)
Fund Balance: June 30, 2006 - est.	\$23,918	\$25,146	\$275,254	\$28,855	\$90,000	\$0	\$443,173
Appropriations - requested							\$0
Expenditures - estimated			(\$34,916)	\$0			(\$34,916)
Fund Balance: June 30, 2007 - est.	\$23,918	\$25,146	\$240,338	\$28,855	\$90,000	\$0	\$408,257
Appropriations - requested							\$0
Expenditures - estimated			(\$37,604)	\$0			(\$37,604)
Fund Balance: June 30, 2008 - est.	\$23,918	\$25,146	\$202,734	\$28,855	\$90,000	\$0	\$370,653
Appropriations - requested							\$0
Expenditures - estimated			(\$10,000)	\$0			(\$10,000)
Fund Balance: June 30, 2009 - est.	\$23,918	\$25,146	\$192,734	\$28,855	\$90,000	\$0	\$360,653

Statements of Changes in Fund Balance Restricted Funds For the Years Ended June 30,					
	Property Tax Project	Special Audit	National Nexus Program	Deregulation Project	Total
Fund Balance - June 30, 2004 - audited	\$60,694	\$8,089	\$162,983	\$5,698	\$237,464
Revenues - estimated	(\$18,000)		\$799,115	\$0	\$781,115
Expenses - estimated	\$0		\$778,759	\$5,663	\$784,422
Surplus (Deficit) - estimated	(\$18,000)		\$20,356	(\$5,663)	(\$3,307)
Estimated FY 2004/2005 audit related accruals			(\$4,000)		(\$4,000)
Fund Balance - June 30, 2005 - estimated	\$42,694	\$8,089	\$179,339	\$35	\$230,157
Revenues - estimated	\$0		\$844,139	\$0	\$844,139
Expenses - estimated	\$0		\$812,253	\$0	\$812,253
Surplus (Deficit) - estimated	\$0		\$31,886	\$0	\$31,886
Estimated FY 2005/2006 audit related accruals			(\$4,000)		(\$4,000)
Fund Balance - June 30, 2006 - estimated	\$42,694	\$8,089	\$207,225	\$35	\$258,043
Revenues - estimated	\$0		\$915,656	\$0	\$915,656
Expenses - estimated	\$0		\$861,331	\$0	\$861,331
Surplus (Deficit) - estimated	\$0		\$54,325	\$0	\$54,325
Estimated FY 2006/2007 audit related accruals			(\$4,000)		(\$4,000)
Fund Balance - June 30, 2007 - estimated	\$42,694	\$8,089	\$257,550	\$35	\$308,368
Revenues - estimated	\$0		\$984,881	\$0	\$984,881
Expenses - estimated	\$0		\$903,223	\$0	\$903,223
Surplus (Deficit) - estimated	\$0		\$81,658	\$0	\$81,658
Estimated FY 2007/2008 audit related accruals			(\$4,000)		(\$4,000)
Fund Balance - June 30, 2008 - estimated	\$42,694	\$8,089	\$335,208	\$35	\$386,026
Revenues - estimated	\$0		\$1,061,722	\$0	\$1,061,722
Expenses - estimated	\$0		\$948,000	\$0	\$948,000
Surplus (Deficit) - estimated	\$0		\$113,722	\$0	\$113,722
Estimated FY 2008/2009 audit related accruals			(\$4,000)		(\$4,000)
Fund Balance - June 30, 2009 - estimated	\$42,694	\$8,089	\$444,930	\$35	\$495,748

Statements of Changes in Fund Balance
Unappropriated Funds
For the Years Ended June 30,

Description	FY 2003/2004		FY 2004/2005		FY 2005/2006		FY 2006/2007		FY 2007/2008		FY 2008/2009	
	Year	Amount	Year	Amount	Year	Amount	Year	Amount	Year	Amount	Year	Amount
Fund Balance - June 30,	2003	\$866,127	2004	\$736,436	2005	\$776,822	2006	\$558,817	2007	\$364,891	2008	\$202,311
Current Operations Surplus (Deficit)												
General Operations		\$806		(\$21,050)		(\$146,330)		(\$127,692)		(\$113,028)		(\$93,104)
Audit		(\$71,895)		\$64,635		(\$15,886)		(\$16,683)		\$6,797		\$19,131
Training & Education		(\$22,298)		\$31,801		(\$20,789)		(\$14,551)		(\$18,849)		(\$23,864)
Appropriations authorized												
Membership Development												
Future of Multistate Taxation												
Enterprise Automation Project												
Cooperative Auditing Study												
Appropriated funds received for current operations												
Equipment (from Automation Plan funds)		\$0		\$0		\$0						
Other												
Audit related accruals - estimated		(\$36,304)		(\$35,000)		(\$35,000)		(\$35,000)		(\$37,500)		(\$40,000)
Fund Balance - June 30,	2004	<u>\$736,436</u>	2005	<u>\$776,822</u>	2006	<u>\$558,817</u>	2007	<u>\$364,891</u>	2008	<u>\$202,311</u>	2008	<u>\$64,474</u>

**MULTISTATE TAX
COMMISSION**

**Financial Statements and
Report of Independent Certified
Public Accountants**

June 30, 2005 and 2004

MULTISTATE TAX COMMISSION
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June 30, 2005 and 2004

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Report of Independent Certified Public Accountants

Executive Committee
Multistate Tax Commission

We have audited the accompanying balance sheets of Multistate Tax Commission as of June 30, 2005 and 2004 and the related statements of revenue and expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Linton Shafer Warfield & Garrett

September 21, 2005

MULTISTATE TAX COMMISSION

MULTISTATE TAX COMMISSION

Balance Sheets

June 30,

ASSETS

	<u>2005</u>	<u>2004</u>
Current Assets		
Cash and cash equivalents	\$ 2,024,308	\$ 1,797,550
Accounts receivable		
Members	-	27,330
Schools	33,617	1,680
Special projects	9,565	-
Prepaid expenses	<u>39,548</u>	<u>73,524</u>
Total Current Assets	<u>2,107,038</u>	<u>1,900,084</u>
 Property and Equipment - at Cost		
Office furniture and equipment	1,041,041	1,030,289
Leasehold improvements	109,857	87,485
Less: accumulated depreciation and amortization	<u>(871,543)</u>	<u>(814,542)</u>
Property and Equipment - Net	<u>279,355</u>	<u>303,232</u>
 Other Assets		
Expense account advances	7,700	8,100
Deposits	<u>10,861</u>	<u>10,861</u>
Total Other Assets	<u>18,561</u>	<u>18,961</u>
 TOTAL ASSETS	 <u>\$ 2,404,954</u>	 <u>\$ 2,222,277</u>

LIABILITIES

	<u>2005</u>	<u>2004</u>
Current Liabilities		
Accounts payable	\$ 70,187	\$ 65,664
Payroll taxes withheld and accrued	25,224	26,307
Accrued salaries and vacation pay	236,596	263,909
Current portion of capital lease obligation	6,748	6,176
Deferred assessments and audit reimbursements	397,296	140,881
Total Current Liabilities	<u>736,051</u>	<u>502,937</u>
Long-Term Liabilities		
Capital lease obligation	<u>6,099</u>	<u>12,847</u>
Total Long-Term Liabilities	<u>6,099</u>	<u>12,847</u>
TOTAL LIABILITIES	<u>742,150</u>	<u>515,784</u>
Commitments and Contingencies - Note 3		
Fund Balances		
Unappropriated	786,702	736,436
Appropriated	638,366	732,594
Restricted	237,736	237,463
Total Fund Balances	<u>1,662,804</u>	<u>1,706,493</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,404,954</u>	<u>\$ 2,222,277</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>2005</u>	<u>2004</u>
Revenue - Unappropriated and Appropriated		
Assessments	\$ 4,435,340	\$ 4,278,463
Less amounts from restricted funds	(18,000)	(24,000)
Interest	36,045	21,808
Other income		
Training fees	182,002	38,950
Miscellaneous	7,925	13,222
Total Revenue	<u>4,643,312</u>	<u>4,328,443</u>
Expenses - Unappropriated and Appropriated		
Accounting	12,961	12,903
Bonds and insurance	25,527	18,845
Conferences and training schools	127,349	102,603
Professional services	410,703	366,844
Database services	120,000	140,000
Depreciation and amortization	104,286	99,973
Employee benefits	525,199	535,798
Miscellaneous	13,847	11,657
Office supplies	51,710	52,430
Retirement plan	305,377	294,174
Postage	28,582	35,510
Printing and duplicating	21,941	33,355
Publications and electronic resources	29,173	26,820
Recruitment	8,811	1,538
Rent	233,343	225,317
Repairs and maintenance	2,940	7,604
Salaries	2,520,232	2,486,798
Software licenses	42,555	60,331
Staff training	26,200	9,723
Subscriptions, publications, dues	40,819	28,322
Telephone	65,150	83,102
Travel	295,728	257,197
Transfer - training and education	(8,800)	(2,200)
Transfer - database services	(140,000)	(150,000)
Allocation of administrative expenses	(158,359)	(179,584)
Total Expenses	<u>\$ 4,705,274</u>	<u>\$ 4,559,060</u>

(continued)

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

	2005	2004
Excess of Revenue Over (Under) Expenses	\$ (61,962)	\$ (230,617)
Transfer from Appropriated Fund Balance	94,228	76,926
Transfer from Restricted Fund Balance	18,000	24,000
Total Amount Transferred	112,228	100,926
 FUND BALANCE - Unappropriated - Beginning of Year	 736,436	 866,127
 FUND BALANCE - Unappropriated - End of Year	 \$ 786,702	 \$ 736,436

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,

	Cooperative Auditing Study	State Tax Compliance	Federalism At Risk
Fund Balance - June 30, 2003	\$ 23,918	\$ -	\$ 37,556
Transfer to State Tax Compliance	(23,918)	23,918	-
Transfer to Unappropriated Fund Balance	<u>-</u>	<u>-</u>	<u>(12,410)</u>
Net Amount Transferred (To) From Unappropriated Fund Balance	<u>(23,918)</u>	<u>23,918</u>	<u>(12,410)</u>
Fund Balance - June 30, 2004	-	23,918	25,146
Transfer to Unappropriated Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>
Net Amount Transferred (To) From Unappropriated Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2005	<u>\$ -</u>	<u>\$ 23,918</u>	<u>\$ 25,146</u>

Enterprise Automation Project	Nexus Activities	Nexus Education	Membership Development and Relations	Total
\$ 578,276	\$ 90,000	\$ 50,915	\$ 28,855	\$ 809,520
-	-	-	-	-
<u>(21,272)</u>	<u>-</u>	<u>(43,244)</u>	<u>-</u>	<u>(76,926)</u>
<u>(21,272)</u>	<u>-</u>	<u>(43,244)</u>	<u>-</u>	<u>(76,926)</u>
557,004	90,000	7,671	28,855	732,594
<u>(86,557)</u>	<u>-</u>	<u>(7,671)</u>	<u>-</u>	<u>(94,228)</u>
<u>(86,557)</u>	<u>-</u>	<u>(7,671)</u>	<u>-</u>	<u>(94,228)</u>
<u>\$ 470,447</u>	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 28,855</u>	<u>\$ 638,366</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,

	<u>4R Project</u>	<u>Nexus Program</u>	<u>Deregulation</u>	<u>Special Audit</u>	<u>Total</u>
Fund Balance - June 30, 2003	\$ 84,694	\$ 266,788	\$ 51,148	\$ -	\$ 402,630
Revenue	-	733,252	-	100,830	834,082
Expenses	<u>-</u>	<u>837,058</u>	<u>45,450</u>	<u>92,741</u>	<u>975,249</u>
Excess (Deficiency) of Revenue Over Expenses	-	(103,806)	(45,450)	8,089	(141,167)
Transfer to Unappropriated Fund Balance	<u>(24,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,000)</u>
Fund Balance - June 30, 2004	60,694	162,982	5,698	8,089	237,463
Revenue	-	796,320	-	-	796,320
Expenses	<u>-</u>	<u>772,349</u>	<u>5,698</u>	<u>-</u>	<u>778,047</u>
Excess (Deficiency) of Revenue Over Expenses	-	23,971	(5,698)	-	18,273
Transfer to Unappropriated Fund Balance	<u>(18,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,000)</u>
Fund Balance - June 30, 2005	<u>\$ 42,694</u>	<u>\$ 186,953</u>	<u>\$ -</u>	<u>\$ 8,089</u>	<u>\$ 237,736</u>

The accompanying notes are an integral part of these statements.

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

	2005	2004
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Excess of revenue over (under) expenses	\$ (43,689)	\$ (371,784)
Adjustments to reconcile excess of revenue over (under) expenses to net cash provided by (used in) operating activities		
Depreciation and amortization	109,717	106,442
Loss on disposal of property and equipment	13,038	6,052
Changes in assets and liabilities		
Accounts receivable		
Members	27,330	(20,849)
Schools	(31,937)	15,110
Special projects	(9,565)	-
Prepaid expenses	33,976	(27,841)
Deposits	-	(233)
Expense account advances	400	100
Accounts payable	4,523	(1,785)
Payroll taxes withheld and accrued	(1,083)	(1,369)
Accrued salaries and vacation pay	(27,313)	21,355
Deferred assessments and audit reimbursements	256,415	51,305
Net Cash Provided by (Used in) Operating Activities	331,812	(223,497)
Cash Flows From Investing Activities		
Purchase of property and equipment	(98,878)	(125,556)
Increase in capital lease	-	20,000
Payments on capital lease	(6,176)	(7,989)
Net Cash Used in Investing Activities	(105,054)	(113,545)
Net Increase (Decrease) in Cash and Cash Equivalents	226,758	(337,042)
Cash and Cash Equivalents - Beginning of Year	1,797,550	2,134,592
Cash and Cash Equivalents - End of Year	\$ 2,024,308	\$ 1,797,550
Supplemental Disclosures		
Income taxes paid	\$ -	\$ -
Interest paid	\$ 1,444	\$ 1,906

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

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2005 and 2004

1. Summary of Significant Accounting Policies

The Multistate Tax Commission (the Commission) was organized in 1967. It was established under the Multistate Tax Compact, which by its terms, became effective August 4, 1967. The basic objective of the 'Compact' and, accordingly, the Commission is to provide solutions and additional facilities for dealing with state taxing problems related to multi-jurisdictional business.

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

All property and equipment is stated at cost and depreciated using straight-line and accelerated methods based upon estimated useful lives as follows:

Leasehold Improvements	5 years
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.

Deferred Assessments and Audit Reimbursements

Assessments and audit reimbursements are due from the respective states on July 1st of each year and cover the following twelve-month period. Assessments 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, 2005 and 2004

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.

2. Retirement Plan

Effective June 30, 1986, the Commission adopted a defined contribution plan to be funded at a rate of twelve percent 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 pension expense relating to the defined contribution plan for the years ended June 30, 2005 and 2004 was \$345,458 and \$341,750, respectively.

3. Commitments

The Commission rents its office facilities in Washington, D.C., Texas, New York, and Illinois under lease agreements with terms expiring on various dates through December 31, 2009. 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>
2006	\$ 287,219
2007	281,367
2008	172,933
2009	44,395
2010	21,930

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, 2005 and 2004 was \$294,644 and \$283,187, respectively.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2005 and 2004

4. Appropriated Fund Balances

The Commission's executive committee authorized the Enterprise Automation fund in the amount of \$73,000 during the year ended June 30, 1997. An additional \$614,298 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.

The Commission's executive committee authorized the Nexus Activities fund in the amount of \$80,000 during the year ended June 30, 1997. An additional net amount of \$20,000 has been authorized in subsequent years. The purpose of this fund is to provide support for Commission nexus activities including, a) research and writing on Constitutional nexus issues and b) a reserve for professional services to support work on potential nexus cases in litigation.

The Commission's executive committee authorized the Membership Development and Relations fund in the amount of \$150,000 during the year ended June 30, 2000. The purpose of this fund is to support efforts aimed at increasing membership.

The Commission's executive committee authorized the Cooperative Audit Study fund in the amount of \$40,000 during the year ended June 30, 2002. The purpose of this fund is to evaluate the expansion of cooperative auditing among states. At July 1, 2003, the remaining balance in the fund was transferred to the State Tax Compliance fund.

The Commission's executive committee authorized the State Tax Compliance fund in the amount of \$23,918 during the year ended June 30, 2004. The purpose of this fund is to support the implementation of the recommendations of the Commission's State Tax Compliance Initiative and the measures to improve state tax compliance by multistate taxpayers as approved by the Executive Committee or Commission.

The Commission's executive committee authorized the Nexus Education fund in the amount of \$100,000 during the year ended June 30, 2002. The purpose of this fund is to educate federal and state policymakers and the public concerning issues and standards of Nexus for state taxation of interstate commerce to advance the goal of preserving the ability of states to tax a fair share of such commerce and for preventing the unwarranted restrictions on state jurisdictional authority.

5. Restricted Fund Balances

During the year ended June 30, 1988, the 4R Program 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.

MULTISTATE TAX COMMISSION
Notes To Financial Statements
June 30, 2005 and 2004

5. Restricted Fund Balances (Continued)

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 through a centralized taxpayer registration information service, a liability resolution process and information sharing among member states. The contributions received from the participating states are restricted for this purpose.

During the year ended June 30, 1999, the Deregulation project was established. This project provides technical assistance to help states adapt their tax policies to the deregulation of major industries, with an initial focus on electric utility deregulation. The contributions received from the participating states are restricted for this purpose.

6. TaxNet Governmental Communications Corporation (TaxNet)

TaxNet is a separate corporation organized as a public charity and instrumentality of the states for the purpose of establishing, maintaining and administering an electronic communications network to allow subscriber access to tax information and communication with governmental tax offices. The corporation is managed by a board of directors, which includes, in accordance with its bylaws, the Chair, Vice Chair and Executive Director of Multistate Tax Commission.

Among other things, the Commission assisted in the formation of TaxNet by contributing legal services. The Commission continues to assist TaxNet by contributing other legal services. Such services have not been reflected separately in the accompanying financial statements, because such amounts are not material.

7. 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 trustee 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 under twenty seven 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, 2005 and 2004

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.

10. Concentration of Credit Risk

The Commission maintains cash balances in excess of \$100,000 in a bank in the State of Colorado. The Commission is an eligible account holder under Colorado's "Public Deposit Protection Act of 1975". The purpose of the act is to provide protection of public moneys on deposit in state and national banks in Colorado and beyond that provided by the federal deposit insurance corporation and to ensure prompt payment of deposit liabilities to governmental units in the event of default or insolvency of any such banks.



Linton Shafer Warfield & Garrett, P.A.
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**Report of Independent Certified Public Accountants
on Supplementary Information**

Executive Committee
Multistate Tax Commission

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Multistate Tax Commission for the year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of expenses for the year ended June 30, 2005, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Linton Shafer Warfield & Garrett

September 21, 2005

SUPPLEMENTARY INFORMATION

MULTISTATE TAX COMMISSION
Schedule of Expenses
For the Year Ended
June 30, 2005

Unappropriated and Appropriated Funds

	General Expenses	Audit Program	Administrative Expenses	Enterprise Automation	Training and Education
Accounting	\$ 8,500	\$ -	\$ 4,461	\$ -	\$ -
Bonds and insurance	-	-	25,527	-	-
Conferences and training schools	94,303	10,613	551	-	21,882
Professional services	262,858	882	17,770	74,850	46,672
Database services	-	120,000	-	-	-
Depreciation and amortization	-	16,491	73,824	13,971	-
Employee benefits	83,956	299,243	123,605	16,759	1,636
Miscellaneous	551	2,687	10,266	225	118
Office supplies	6,411	15,690	19,713	1,185	8,711
Outreach program	-	-	-	-	-
Retirement plan	59,635	168,219	67,368	8,421	1,734
Postage	3,343	12,866	9,478	152	2,743
Printing and duplicating	5,231	546	6,176	-	9,988
Publications and electronic resources	5,209	8,076	15,888	-	-
Recruitment	2,184	6,627	-	-	-
Rent	35,373	87,080	110,890	-	-
Repairs and maintenance	100	628	2,212	-	-
Salaries	471,655	1,398,600	563,655	71,872	14,450
Software licenses	-	5,025	2,710	34,820	-
Staff training	5,734	10,550	9,916	-	-
Subscriptions, publications, dues	16,134	14,077	5,632	4,062	914
Telephone	24,808	28,774	11,531	-	37
Travel	91,374	162,959	21,722	240	19,433
Transfer - training and education	-	(8,800)	-	-	-
Transfer - database services	-	-	-	(140,000)	-
Allocation of administrative expenses	304,672	606,659	(1,102,895)	-	33,205
Total Expenses	\$ 1,482,031	\$ 2,967,492	\$ -	\$ 86,557	\$ 161,523

Nexus Education	Total		Restricted Funds		
	Unappropriated and Appropriated Funds	Deregulation	National Nexus Program	Total Restricted Funds	Total All Funds
\$ -	\$ 12,961	\$ -	\$ -	\$ -	\$ 12,961
-	25,527	-	-	-	25,527
-	127,349	-	9,203	9,203	136,552
7,671	410,703	-	21,446	21,446	432,149
-	120,000	-	20,000	20,000	140,000
-	104,286	-	5,431	5,431	109,717
-	525,199	-	76,056	76,056	601,255
-	13,847	-	294	294	14,141
-	51,710	-	4,706	4,706	56,416
-	-	-	1,040	1,040	1,040
-	305,377	-	40,081	40,081	345,458
-	28,582	-	5,180	5,180	33,762
-	21,941	-	1,309	1,309	23,250
-	29,173	-	912	912	30,085
-	8,811	-	-	-	8,811
-	233,343	-	61,301	61,301	294,644
-	2,940	-	-	-	2,940
-	2,520,232	-	332,831	332,831	2,853,063
-	42,555	-	-	-	42,555
-	26,200	-	3,946	3,946	30,146
-	40,819	5,000	13,292	18,292	59,111
-	65,150	-	9,540	9,540	74,690
-	295,728	-	15,160	15,160	310,888
-	(8,800)	-	(7,040)	(7,040)	(15,840)
-	(140,000)	-	-	-	(140,000)
-	(158,359)	698	157,661	158,359	-
<u>\$ 7,671</u>	<u>\$ 4,705,274</u>	<u>\$ 5,698</u>	<u>\$ 772,349</u>	<u>\$ 778,047</u>	<u>\$ 5,483,321</u>

