MSRB
Municipal Securities Rulemaking Board

Financial Statements as of and for the Years Ended September 30, 2016 and 2015, and Report of Independent Certified Public Accountants

Contents

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of the Municipal Securities Rulemaking Board
1300 I Street NW, Suite 1000
Washington, DC 20005

We have audited the accompanying financial statements of the Municipal Securities Rulemaking Board ("MSRB"), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MSRB's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MSRB's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Securities Rulemaking Board as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

December 15, 2016

Financial Statements

STATEMENTS OF FINANCIAL POSITION

As of September 30, 2016 and 2015	2016	2015
ASSETS		
Cash and cash equivalents	$ 3,752,266	$ 1,381,014
Investments	56,117,474	57,926,260
Accounts receivable — net	5,860,917	5,580,869
Prepaid and other assets	1,026,330	1,740,081
Accrued interest receivable	216,874	234,159
Fixed assets — net of accumulated depreciation and amortization of $28,636,318 and $29,605,072 in 2016 and 2015, respectively	12,574,094	7,967,085
TOTAL	$79,547,955	$74,829,468
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	$ 3,258,205	$ 1,655,294
Accrued vacation payable	683,095	682,386
Deferred compensation	140,805	329,607
Deferred revenue	278,210	273,419
Deferred rent	5,872,836	2,373,768
Total liabilities	10,233,151	5,314,474
Undesignated net assets	57,564,027	52,291,847
Designated technology renewal fund	11,750,777	16,515,496
Designated facility fund	–	707,651
Net assets — unrestricted	69,314,804	69,514,994
TOTAL	$79,547,955	$74,829,468

See notes to financial statements.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended September 30, 2016 and 2015	2016	2015
REVENUE:		
Underwriting assessment fees, net of firm rebates of $1.8 million in 2016	$10,367,501	$12,990,546
Transaction fees, net of firm rebates of $2.2 million in 2016	11,632,218	13,313,660
Technology fees, net of firm rebates of $1.5 million in 2016	5,576,543	7,268,324
Annual and initial fees	2,144,609	1,142,114
Data subscriber fees	1,833,931	1,817,702
Municipal advisor professional fees	1,225,200	1,336,168
Rule violation fine revenue	1,219,081	2,652,316
Other income	1,387,897	806,746
Total Revenue	35,386,980	41,327,576
EXPENSES:		
Rulemaking and policy development	8,097,265	6,847,256
Board governance	1,620,405	1,770,521
Market structure, policy and transparency program operations	16,942,019	15,557,898
Market leadership, outreach and education	2,907,840	2,462,542
Administration	6,019,641	5,563,390
Total Expenses	35,587,170	32,201,607
CHANGE IN NET ASSETS	(200,190)	9,125,969
NET ASSETS — Beginning of year	69,514,994	60,389,025
NET ASSETS — End of year	$69,314,804	$69,514,994

See notes to financial statements.

STATEMENTS OF CASH FLOWS

For the years ended September 30, 2016 and 2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (200,190)	$9,125,969
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,215,115	3,453,616
Net gain on sale and disposal of long-lived assets	(26,196)	–
Impairment of long-lived assets	–	91,420
Net amortization of investment premiums and discounts	178,641	196,632
Unrealized gain on investments	(52,712)	(127,879)
Realized loss on investments	2,643	–
Bad debt expense	45,906	12,610
Changes in assets and liabilities:		
Accounts receivable	(325,954)	(516,109)
Prepaid and other assets	713,751	(927,408)
Accrued interest receivable	17,285	(88,126)
Accounts payable and accrued liabilities	1,602,911	(794,606)
Accrued vacation payable	709	75,112
Deferred compensation	(188,802)	109,321
Deferred revenue	4,791	8,167
Deferred rent	3,499,068	1,685,125
Net cash provided by operating activities	9,486,966	12,303,844
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of fixed assets	30,741	–
Purchases of fixed assets	(8,826,669)	(4,709,614)
Purchases of investments	(21,581,368)	(24,908,675)
Maturities of investments	23,261,582	16,679,000
Net cash used in investing activities	(7,115,714)	(12,939,289)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,371,252	(635,445)
CASH AND CASH EQUIVALENTS, Beginning of year	1,381,014	2,016,459
CASH AND CASH EQUIVALENTS, End of year	$3,752,266	$1,381,014
SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Like-kind equipment exchange	$ 10,185	$ –

See notes to financial statements.

Notes to Financial Statements

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

1. NATURE OF OPERATIONS

The Municipal Securities Rulemaking Board (MSRB) was created by Congress under the 1975 Amendments to the Securities Exchange Act of 1934, and the authority of the MSRB was expanded by further amendments to the Exchange Act under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (as amended, the Exchange Act). The MSRB is incorporated as a not-for-profit, non-stock corporation pursuant to the laws of the Commonwealth of Virginia. Under the Exchange Act, the MSRB is a self-regulatory organization with authority to adopt rules regulating the municipal securities activities of brokers, dealers and municipal securities dealers, and the municipal advisory activities of municipal advisors (collectively referred to as "regulated entities"), to promote fair and efficient markets and to protect investors, municipal entities, obligated persons and the public interest. The MSRB collects and disseminates market information, and operates the Electronic Municipal Market Access (EMMA®) website to promote transparency and widespread access to information, and also engages in significant education, outreach and market leadership activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The MSRB's financial statements are prepared using the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America (GAAP).

Fair Value Measurement — The MSRB measures fair value in accordance with the provisions of the Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurement*, which provides a common definition of fair value for GAAP and International Financial Reporting Standards (IFRS), establishes a framework for measuring fair value, provides a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements.

Cash Equivalents — Highly liquid investments with maturities of three months or less at the date of purchase are considered to be cash equivalents.

Included in cash equivalents are short term money market mutual funds fully invested in securities backed by the full faith and credit of the United States Government with a total fair market value of $2.9 million and $667,337 at September 30, 2016 and 2015, respectively. As per the fair value hierarchy discussed in Note 4, Fair Value Measurements, the MSRB considers the investments in short term money market mutual funds as Level 1 inputs.

Investments — Investments are stated at fair value. Investments consist of United States (U.S.) Treasury notes, government-guaranteed agency securities, certificates of deposit that are FDIC insured and a 457(f) Rabbi Trust that is comprised entirely of mutual funds.

Amortization and accretion of investment premiums and discounts are recorded as a component of investment return.

Accounts Receivable and Allowance for Doubtful Accounts — Accounts receivable are recorded at invoiced amounts and do not bear interest. Accounts receivable are reported net of an allowance for doubtful accounts in the statements of financial position. Management's estimate of the allowance for doubtful accounts is based on historical collection experience and ongoing account reviews. Account balances are written off against the allowance once the potential for recovery is considered remote.

Concentration of Credit Risk — Financial instruments that potentially subject the MSRB to a concentration of credit risk consist principally of cash, cash equivalents, accounts receivable and investments. The MSRB maintains cash primarily in non-interest-bearing accounts with FDIC insurance up to $250,000. MSRB investments are backed by the full faith and credit of the United States Government or its fully guaranteed agencies. Accounts receivable consist of fees due from regulated entities and data subscribers. At times, there are certain significant balances due from regulated entities but the MSRB does not believe it is exposed to any significant credit risk on these balances. Five regulated entities accounted for approximately one-third of total fee revenue in fiscal year 2016 and fiscal year 2015.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used in accounting for, among other things, realization of accounts receivable, the carrying value of investments and the impairment of long-lived assets. Actual results could differ from those estimates.

Fixed Assets — Computer and office equipment, as well as furniture and fixtures are recorded at cost and are depreciated using the straight-line method over three years and five years, respectively. Acquisition costs include all expenses necessary to prepare the asset for its intended purpose including direct labor related costs. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease period or the estimated useful life of the improvement. Improvements and replacements of fixed assets are capitalized. Maintenance and repairs that do not improve or extend the lives of fixed assets are charged to expense as incurred.

When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts, and any gain or loss is recognized in the statements of activities and changes in net assets.

Capitalized Software Costs — The MSRB capitalizes certain costs associated with computer software developed or obtained for internal use as part of the MSRB information systems. The MSRB's policy provides for the capitalization of external direct costs of materials and services and direct payroll-related costs incurred during the application development stage as well as costs related to upgrades and enhancements to this software provided it is probable that these expenditures will result in additional functionality. Costs associated with preliminary project stage activities, training, maintenance and post implementation stage activities are expensed as incurred.

After all substantial testing and deployment are completed and the software is ready for its intended use, internally developed software costs are amortized using the straight-line method over three years.

Impairment of Long-Lived Assets — The MSRB's policy is to review its long-lived assets, such as fixed assets and capitalized software costs, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment, if any, is recognized in the period of identification to the extent the carrying amounts of an asset exceeds the fair value of such asset.

Leases — The MSRB leases office space under non-cancelable operating leases and may include options that permit renewals for additional periods. Rent abatements and escalations are considered in the determination of straight-line rent expense for operating leases. Lease incentives are recorded as deferred rent and recognized as a reduction to rent expense on a straight-line basis over the lease term.

Deferred Revenue — Data Subscriber revenue is recognized on a straight-line basis over the service period. Deferred revenue represents the portion of payments received applicable to future periods.

Functional Allocation of Expenses — The costs of providing the various organizational activities and programs have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs benefitted.

Reciprocal Transactions — The MSRB receives municipal credit ratings data for municipal securities in exchange for its data subscription service feeds. The revenue and expenses are recognized in the Statement of Activities at the same data subscription fee rate that other data subscribers pay for similar services. Revenue and expenses recognized totaled $132,000 and $98,250 for the years ended September 30, 2016 and September 30, 2015, respectively.

Revenue Recognition:

Underwriting Assessment Fees — The underwriting assessment fee on municipal securities dealers acting as underwriters is equal to $0.0275 per $1,000 of the par value of municipal securities purchased by underwriters from an issuer as part of a new issue, effective January 1, 2016. Prior to January 1, 2016, the underwriting assessment fee was $0.03 per $1,000 of the par value. Currently, commercial paper and municipal fund securities are exempt from the assessment.

Revenue from underwriting assessment fees is recognized in the month the underwriter files the offering document with the MSRB. In fiscal year 2016, underwriting revenue is disclosed net of rebates of $1.8 million.

Transaction Fees — The transaction fee on municipal securities dealers is $0.01 per $1,000 par value of bonds sold and is levied on both customer and interdealer transactions as specified in Rule A13. As described in this rule, certain transactions are exempt from this fee.

Transaction fee revenue is recognized as sales transactions are settled. In fiscal year 2016, transaction fees revenue is disclosed net of rebates of $2.2 million.

Technology Fees — The technology fee on municipal securities dealers is $1.00 per municipal security trade for all customer and interdealer sales transactions. As further described in Note 12, the MSRB Board has designated the use of the funds generated by these fees through December 31, 2015 to update, maintain and replace its technology systems.

Technology fee revenue is recognized as sales transactions are settled. In fiscal year 2016, technology fee revenue is disclosed net of rebates of $1.5 million.

Data Subscriber Fees — The MSRB operates four electronic information systems that collect, store and provide access to information pertaining to the municipal securities market. The MSRB Primary Market Disclosure

System includes official statements, advance refunding documents and related data. The MSRB Continuing Disclosure System includes continuing disclosure documents and related data from municipal securities issuers, obligated persons and their agents. The Real Time Transaction Reporting System covers data on all municipal securities transactions for purposes of price transparency and surveillance. Finally, the Short-term Obligation Rate Transparency System covers short-term obligation rate reset data and related documents. Information processed by these systems is sold to subscribers on an annual basis with revenue recognized straight-line over the period of service. In addition, the MSRB sells annual historical collections of information from these systems, with the fee billed and recognized at the time of purchase.

Municipal Advisor Professional Fees — Each municipal advisor that is registered with both the SEC and the MSRB is required to pay an annual per professional fee of $300 per Rule A-11.

Annual and Initial Fees — With respect to each fiscal year of the MSRB in which a regulated entity conducts business, the regulated entity is required to pay an annual fee of $1,000 per Rule A-12. Prior to October 1, 2015, the annual fee was $500. Revenue is recognized when regulated entities are billed annually in October, or when received upon initial registration with the MSRB to conduct business. The initial fee is a onetime fee of $1,000 which is to be paid by every regulated entity upon registration with the MSRB under Rule A-12. Prior to October 1, 2015, the initial fee was $100. Initial fee revenue is recognized when received.

Rule Violation Fee Revenue — The Dodd-Frank Act provides that fines collected by the Securities and Exchange Commission (SEC) for violations of the rules of the MSRB shall be equally divided between the SEC and the MSRB and that one-third of fines collected by the Financial Industry Regulatory Authority (FINRA) allocable to violations of the rules of the MSRB will be paid to the MSRB, although the portion of such fines payable to the MSRB may be modified at the direction of the SEC upon agreement between the MSRB and FINRA. Fine revenue is recorded in the month earned.

Professional Qualification Examination Fees — Rule A-16 establishes the examination fee on persons taking certain qualification examinations of $150 per exam. Prior to April 1, 2015, the fee was $60 per exam. These examinations include the Series 51 (Municipal Fund Securities Limited Principal Qualification Examination), Series 52 (Municipal Securities Representative Qualification Examination) and Series 53 (Municipal Securities Principal Qualification Examination).

As part of its expanded mandate under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the MSRB amended its Rule G-3 on professional qualifications to establish the requirement that all municipal advisor professionals take and pass a qualifying exam. The pilot Series 50 (Municipal Advisor Representative Qualification Examination) exam was available from January 15, 2016 through February 15, 2016. The permanent Series 50 exam was made available September 12, 2016.

Professional qualification examination fees, including pilot examination fees, are recognized in the month the exams are given and totaled $493,645 and $226,410 for the years ended September 30, 2016 and 2015, respectively. Professional qualification examination fees are included in other income in the accompanying statements of activities and changes in net assets.

New Accounting Pronouncements:

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02 "Leases (Topic 842)," which supersedes the guidance in former ASC Topic 840 "Leases." The most significant change will result in the recognition of lease assets for the right to use the underlying asset, and lease liabilities for the obligation to make lease payments by lessees, for those leases classified as operating leases under current guidance. The new guidance will also require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. This standard is effective for the fiscal year ending September 30, 2021, with early adoption permitted. Upon adoption of ASU 2016-02, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The MSRB believes adoption of this standard will have a significant impact on the statements of financial position and is evaluating the impact this ASU will have on the statements of activities and cash flows.

In August 2016, the FASB issued ASU 2016-14 to Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends several requirements for financial statements and notes, including net asset classifications in the statements of financial position and statements of activities and enhanced disclosures in numerous areas. This standard is effective for the fiscal year ending September 30, 2019, with early adoption permitted. The MSRB is evaluating the impact this ASU will have on the financial statement presentation.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. This standard is effective for the fiscal year ending September 30, 2019, with early adoption permitted. The MSRB is evaluating the impact this ASU will have on the financial statements.

3. INVESTMENTS

Investments as of September 30, 2016 and 2015, consist of the following:

	2016	2015
Government-guaranteed agency securities	$32,432,830	$34,170,463
Certificates of deposit	12,715,373	9,368,843
U.S. treasury notes	10,842,489	14,172,782
Mutual funds	126,782	214,172
	$56,117,474	$57,926,260

Government-guaranteed agency securities include Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds fully guaranteed by the U.S. government.

In September 2014, a letter of credit in the amount of $130,000 was accepted as a security deposit by the landlord under the terms of the new office lease in Washington, DC. The MSRB purchased a certificate of deposit for the same amount to collateralize the letter of credit. This holding is included in Certificates of deposit.

Investment return for the years ended September 30, 2016 and 2015 is included in other income in the accompanying Statements of Activities and Changes in Net Assets and consists of the following:

	2016	2015
Interest and dividends	$490,959	$390,556
Unrealized gains	52,712	127,879
Realized losses	(2,643)	–
	$541,028	$518,435

4. FAIR VALUE MEASUREMENTS

The carrying amounts of financial instruments, including cash, receivables, accounts payable and accrued expenses, approximate fair value as of September 30, 2016 and 2015 because of the relatively short duration of these instruments.

The MSRB's policy uses the GAAP framework for measuring fair value which provides a fair value hierarchy based on observable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy reflects three levels based on the transparency of inputs as follows:

Level 1 — Valuation based on quoted prices available in active markets for identical assets or liabilities as of the report date.

Level 2 — Valuations based on inputs, other than quoted prices included within Level 1, that are observable, either directly or indirectly.

Level 3 — Valuations based on significant inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value.

The MSRB considers observable market data to be readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The MSRB's Level 1 investments include mutual funds.

The MSRB's Level 2 investments include U.S. treasury notes, government-guaranteed agency securities and certificates of deposit.

The MSRB bases the fair value on pricing obtained from the MSRB's investment brokers. The MSRB does not adjust for or apply any additional assumptions or estimates to the pricing information it receives from its brokers. The brokers' pricing is compared to industry standard data providers or current yields available on comparable securities for reasonableness. The MSRB considers this the most reliable information available for the valuation of investments.

Investments were recorded at fair value as of September 30, 2016 and 2015, based on the following levels of hierarchy:

2016	Level 1	Level 2	Level 3	Total
Government-guaranteed agency securities	$ –	$32,432,830	$ –	$32,432,830
Certificates of deposit	–	12,715,373	–	12,715,373
U.S. treasury notes	–	10,842,489	–	10,842,489
Mutual funds	126,782	–	–	126,782
	$126,782	$55,990,692	$ –	$56,117,474

2015	Level 1	Level 2	Level 3	Total
Government-guaranteed agency securities	$ –	$34,170,463	$ –	$34,170,463
Certificates of deposit	–	9,368,843	–	9,368,843
U.S. treasury notes	–	14,172,782	–	14,172,782
Mutual funds	214,172	–	–	214,172
	$214,172	$57,712,088	$ –	$57,926,260

5. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2016 and 2015 consist of the following:

	2016	2015
Billed accounts receivable	$3,786,629	$3,747,176
Unbilled accounts receivable	1,914,856	1,912,752
Insurance recovery receivable	253,811	–
	5,955,296	5,659,928
Less allowance for doubtful accounts	(94,379)	(79,059)
	$5,860,917	$5,580,869

Unbilled receivables at September 30, 2016 and 2015 consist primarily of September transaction and technology fees revenue billed in early October. September 30, 2016 includes the recognition of an insurance recovery with the credit included in Other Income on the Statements of Activities.

6. PREPAID AND OTHER ASSETS

Prepaid and other assets as of September 30, 2016 and 2015 consist of the following:

	2016	2015
Prepaid assets	$1,014,699	$ 877,649
Deposits	11,631	862,432
	$1,026,330	$1,740,081

Deposits at September 30, 2015 include $852,052 for furniture delivered in November 2015.

7. FIXED ASSETS

Fixed assets as of September 30, 2016 and 2015 consist of the following:

	2016	2015
Capitalized software costs	$30,489,863	$27,799,951
Computer and office equipment	4,973,274	4,409,072
Leasehold improvements	4,033,851	3,709,586
Furniture and fixtures	1,713,424	1,653,548
	41,210,412	37,572,157
Less accumulated depreciation and amortization:		
Capitalized software costs	(25,374,963)	(23,413,043)
Computer and office equipment	(2,686,844)	(2,742,126)
Leasehold improvements	(263,276)	(1,823,857)
Furniture and fixtures	(311,235)	(1,626,046)
	(28,636,318)	(29,605,072)
	$12,574,094	$ 7,967,085

Depreciation expense and amortization expense during fiscal years 2016 and 2015 are as follows:

	2016	2015
Depreciation expense	$1,556,575	$ 738,893
Amortization expense for capitalized software cost and leasehold improvements	2,658,540	2,714,723
	$4,215,115	$3,453,616

Impairment of long-lived assets — Through regular review of long-lived assets, in fiscal year 2016 no estimated impairment loss was recognized. In fiscal year 2015 an estimated impairment loss of $91,420 was recognized related to assets, primarily leasehold improvements, which would not have value or be used after the office relocation to Washington, DC in December 2015. The net book value of such assets was adjusted based on the remaining useful life.

Leasehold improvements — In conjunction with the new Washington, DC lease, the landlord provided up to $4.4 million in landlord incentives. The September 30, 2016 balance includes $3.9 million of leasehold improvements incurred in preparation of the Washington, DC leased office space totally funded by landlord incentives and is recorded as a deferred rent liability. The September 30, 2015 balance includes $1.8 million of construction costs in process incurred in preparation of the Washington, DC leased office space, of which $1.7 million was funded by landlord incentives and is recorded as a deferred rent liability.

Capitalized software costs — For the years ended September 30, 2016 and 2015, $2.1 million and $752,200, respectively of internally developed work-in-process costs for software not yet implemented are included in capitalized software costs.

Computer and office equipment — The September 30, 2015 balance includes work-in-process of $476,416 primarily associated with data center equipment setup costs. The data center was completed and put in service in October 2015.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of September 30, 2016 and 2015 consist of the following:

	2016	2015
Accounts payable and accrued expenses	$2,359,361	$ 861,708
Salaries, taxes and benefits payable	898,844	793,586
	$3,258,205	$1,655,294

The September 30, 2016 accounts payable and accrued expenses include $1.6 million of rebates and balances due to regulated entities.

The accounts payable, technology fee and other amounts due to registrants and other accrued expenses disclosed in the September 30, 2015 financial statements have been reclassified into accounts payable and accrued expenses to conform to the September 30, 2016 financial statements presentation.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases — The MSRB leases office space under operating lease arrangements. The MSRB moved to new leased office space in Washington, DC in December 2015, which will expire in fiscal year 2031. The MSRB determined to move its office into Washington, DC at the expiration of the Alexandria, Virginia lease, which ended March 31, 2016. The MSRB began constructing leasehold improvements for the Washington, DC space in July 2015.

These leases contain escalation clauses based on increases in rent and building operating costs. Rent expense is recognized on a straight-line basis over the term of the respective lease and is credited or charged to deferred rent as appropriate, which is included in liabilities in the accompanying statements of financial position. Total rent expense for operating leases for the years ended September 30, 2016 and 2015 was $2,545,060 and $2,724,994, respectively.

The MSRB has lease agreements for website hosting, business continuity and disaster recovery. Total lease payments under these operating leases for the years ended September 30, 2016 and 2015, were $485,972 and $515,890, respectively.

Future minimum lease payments under non-cancelable operating leases are as follows:

Years Ending September 30	
2017	$ 546,956
2018	1,949,899
2019	1,867,253
2020	1,695,466
2021	1,737,833
2022 and beyond	18,830,087
Total minimum lease payments	$26,627,494

Unrecognized commitments — in 2015 and in conjunction with the move to the new office space in Washington, DC, the MSRB entered into agreements for delivery in fiscal year 2016 of furniture and office equipment. The amounts due under these agreements totaled $1.4 million. Additionally, the MSRB had commitments totaling $2.1 million for additional leasehold improvements to prepare the space for occupancy. These commitments were funded in fiscal year 2016 from a combination of the landlord incentives, Board designated facility funds and the technology renewal fund.

Employment Agreements — In accordance with the executive director's employment agreement, a 457(f) deferred compensation plan is maintained and annual contributions as defined by the agreement are made. Contributions and the related earnings and interest vest at the end of each contract. As of September 30, 2016 and 2015, the MSRB has recorded a deferred compensation liability related to the 457(f) plan of $126,222 and $317,107, respectively.

Litigation — The MSRB is party to litigation arising out of the conduct of its business, which seeks injunctive relief with no monetary damages. Management estimates that there will be no material adverse effect on the MSRB financial position and the results of operations related to such litigation.

10. RETIREMENT PLAN

The MSRB has a defined contribution pension plan for all employees. Participation commences upon date of hire as described in the plan document. For all active participants employed on the first day of the calendar quarter, the MSRB makes a quarterly contribution as required by the plan document. The contribution percentage ranges from 7% to 9% depending on the length of vested service as set forth in the plan document.

Each employee is fully vested upon being credited with three plan years of service. Employees may also make voluntary contributions to the plan. The MSRB made contributions to the plan totaling $989,279 and $917,015 for the years ended September 30, 2016 and 2015, respectively.

All administrative expenses of the plan are paid by the MSRB. Administrative expenses total $4,000 and $11,279 for the years ended September 30, 2016 and 2015, respectively.

11. INCOME TAXES

The MSRB is exempt from federal and state taxes on income (other than unrelated business income) under Section 501(c)(6) of the Internal Revenue Code and applicable income tax regulations of the Commonwealth of Virginia and District of Columbia. The MSRB files an annual informational tax form, Form 990, with the Internal Revenue Service. The MSRB realized no unrelated business income in fiscal years 2016 and 2015 and no provision for income taxes has been made as of September 30, 2016 and 2015.

The MSRB addresses uncertain tax positions in accordance with ASC Topic 740, *Income Taxes*, which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements. During the years from 2013 to 2016, which represent the years management considers to be open for examination by taxing authorities, management did not identify the existence of any uncertain tax position.

12. BOARD DESIGNATED NET ASSETS

With the establishment of the technology fee on January 1, 2011, a Board designated technology renewal fund was created to provide funds for capital expenditures, such as the replacement or acquisition of computer hardware and software. The technology renewal fund is credited with all revenue derived from the technology fee and depleted by information technology capital expenses. Effective January 1, 2016, technology fees earned are no longer credited to the Board designated technology renewal fund.

During fiscal year 2013 and 2014, a $1.56 million Board designated facility fund was established to help fund the move of the data center and future expenses associated with an office move or renovation following the MSRB operating lease expiration on March 31, 2016. The facility fund was spent on office move related expenses of $707,651 and $852,052 in fiscal years 2016 and 2015, respectively.

	2016	2015
Designated technology renewal fund - Balance beginning of year	$16,515,496	$12,119,081
Technology fees, net of technology rebates of $1.5 million in 2016	200,467	7,268,324
Technology capital expenditures	(4,965,186)	(2,871,909)
Designated technology renewal fund	11,750,777	16,515,496
Designated facility fund	–	707,651
Total Board designated funds	$11,750,777	$17,223,147

13. SUBSEQUENT EVENTS

The MSRB evaluated its September 30, 2016, financial statements for subsequent events through December 15, 2016, the date the financial statements were available to be issued. The MSRB is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

MSRB

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