



Municipal Securities Rulemaking Board



2021

ANNUAL REPORT

Building the Foundation
for the Future

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ABOUT THE MSRB

The Municipal Securities Rulemaking Board (MSRB) protects and strengthens the municipal bond market, enabling access to capital, economic growth, and societal progress in tens of thousands of communities across the country. The MSRB fulfills this mission by creating trust in our market through informed regulation of dealers and municipal advisors that protects investors, issuers and the public interest; building technology systems that power our market and provide transparency for issuers, institutions, and the investing public; and serving as the steward of market data that empowers better decisions and fuels innovation for the future. The MSRB is a self-regulatory organization governed by a board of directors that has a majority of public members, in addition to representatives of regulated entities. The MSRB is overseen by the Securities and Exchange Commission and Congress.

MESSAGE FROM LEADERSHIP



As we write this letter, the world remains in a united front against a global pandemic that is stretching beyond what any of us could have imagined nearly two years ago. Looking back at what we have accomplished over the past year amid this adversity, we are inspired by the dedication of our people to advance the MSRB's mission to protect and strengthen the \$4 trillion municipal securities market, which enables access to capital, economic growth and societal progress in communities across America.

This past year, in close collaboration with market stakeholders, the Board approved a long-range strategic plan and put forth a bold new vision for the future that will guide us in the years to come. The core pillars of this strategy remain firmly grounded in our mandate from Congress, and we are pleased to report early progress against our four strategic goals:

- First, to modernize our rulebook by retiring interpretive guidance that no longer achieved intended purposes and to provide targeted regulatory relief to dealers and municipal advisors grappling with the continued challenges of COVID-19;
- Second, to modernize the Electronic Municipal Market Access (EMMA®) website and our other market transparency technology systems;
- Third, to improve the quality of data we provide to the market by leveraging cloud computing and advances in data analytics; and
- Fourth, to protect and uphold the public interest and integrity of this market and act on our commitment to social responsibility and diversity, equity and inclusion (DEI).

The MSRB has embraced its responsibility as a leader in this industry to promote change, which must begin from within. As an organization, the MSRB is more diverse than at any point in its history, with women representing two-thirds of its 15-member board and more than half of

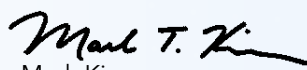
staff identifying as a racial minority. While we are proud of where we stand today, there is more work to be done, and the MSRB is developing a strategy that is premised on the belief that advancing DEI is not only essential to our success as a regulator, but also for the success of the market we regulate.

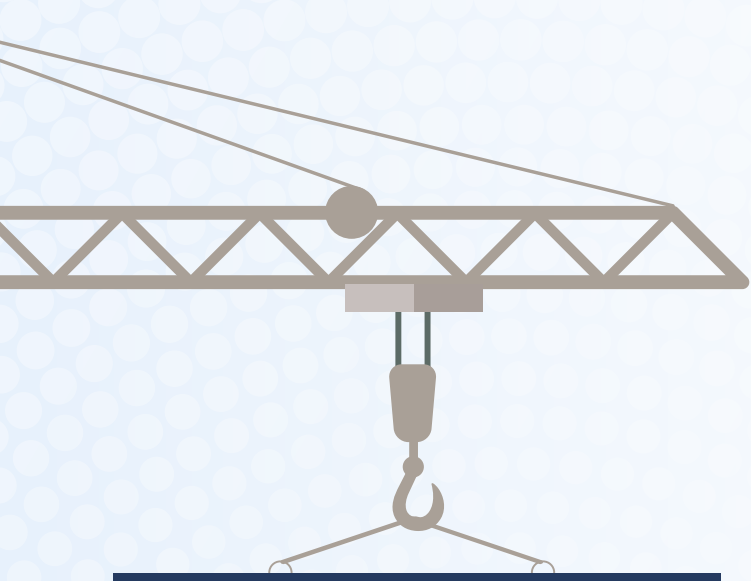
The MSRB is committed to the highest standards for financial transparency and accountability, and to responsible stewardship of financial resources. As a private, self-regulatory organization (SRO), the MSRB's revenues come primarily from the entities we regulate. Although the pandemic triggered a severe dislocation in the spring of 2020, the market proved its resilience and ended the year with record issuance volume. This market volatility contributed to operating reserves that exceeded target at the start of 2021, and the Board consequently approved a 40% reduction in the three primary market-based fees over an 18-month period, an action that is projected to return \$19 million in accumulated excess reserves to the industry. Looking forward, the MSRB is conducting a comprehensive examination of its finances and fee structure to ensure an equitable and sustainable balance of funding that will support our mandate to protect investors, issuers and the public interest.

As we emerge from this pandemic, we expect state and local governments will continue to drive economic growth and recovery by investing in public infrastructure, the majority of which will be financed through the market that we are entrusted to regulate. The MSRB will be there every step of the way, advancing our vision of giving America the confidence to invest in its communities.

Sincerely,


Patrick Brett


Mark Kim



**BUILDING THE FOUNDATION
FOR THE FUTURE**

Leveraging Technology to Enhance Market Transparency

A key way the MSRB protects and strengthens the municipal securities market is by operating the critical technology infrastructure that powers the market and provides transparency for investors, issuers and all market participants. Over a decade ago, the MSRB revolutionized market transparency in the municipal market by launching the EMMA website and related technology systems.

While the MSRB has made significant improvements to its market transparency systems over the years, the needs of the market are constantly evolving, and the MSRB must keep pace and adapt to these changing needs. From undertaking an enterprise-wide migration to the cloud in FY 2020 to a multi-year strategic investment in modernizing its entire suite of market transparency systems, including the EMMA website, the MSRB is building the foundation for the market transparency needs of the future. The MSRB has set aside more than \$17 million in reserves for its systems modernization fund—its biggest investment in technology since the launch of EMMA. And it has a bold new goal to guide its market transparency initiatives for the coming years.

THE MSRB HAS SET ASIDE MORE THAN \$17 MILLION IN RESERVES FOR ITS SYSTEMS MODERNIZATION FUND—ITS BIGGEST INVESTMENT IN TECHNOLOGY SINCE THE LAUNCH OF EMMA.

The MSRB focused its efforts in FY 2021 on engaging with stakeholders to understand their pain points and develop solutions to enhance the EMMA user experience. Among the common themes raised by stakeholders was the challenge of managing CUSIP¹ numbers. CUSIP numbers serve as the unique identifier for individual securities, and many issuers have thousands of outstanding securities. When issuers make a disclosure filing to the EMMA website, they must ensure that the filing is associated with the proper CUSIP numbers to ensure investors and the public can access all disclosures relevant to a specific security on EMMA. The EMMA website has a feature to allow issuers to save a group of CUSIPs to use for future disclosure filings. Based on user feedback, the MSRB developed a series of enhancements to the CUSIP groups feature to allow more dynamic filtering and to make it more intuitive to use. The MSRB also continued a multi-year effort to remove CUSIPs from EMMA for securities that were never issued to help clean up data that are not useful to the market.

MARKET TRANSPARENCY GOAL



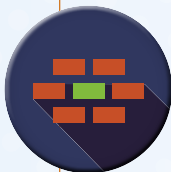
Our goal is to leverage our investment in the cloud and in our people to enhance the value of EMMA[®] as a platform that benefits all market participants and the public; adopt new technologies that strengthen our ability to protect investors and issuers and enhance overall market fairness and efficiency to foster market liquidity and resiliency; and leverage technology to enable education about and engagement with the municipal securities market.

¹ "CUSIP" is a registered trademark of the American Bankers Association.



Leveraging Market Data to Fuel Innovation

The MSRB serves as the municipal market’s central repository for data, collecting and publicly disseminating millions of data points on municipal securities, issuers and the broader market. Market participants depend on these data to issue, trade and invest in municipal securities, and to understand market trends. But the usefulness of the data depends entirely on quality and the tools available for analysis. That is why the MSRB is investing considerable resources to modernize its data platforms, leveraging the power of the cloud to improve the quality of data available. Improved data quality helps ensure trust in our data and transparency programs and provide confidence in making data-driven decisions.



MARKET DATA GOAL

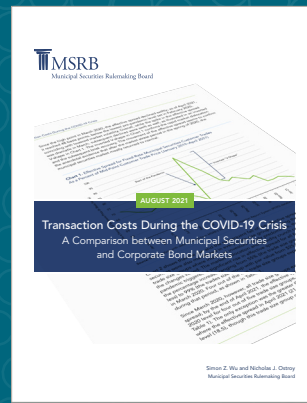
Our goal is to provide high quality market data that enable comprehensive analysis of the municipal securities market; develop innovative data products and services that provide value for investors, issuers and all market participants; and increase the opportunities for data to strengthen market efficiency and fairness.

Leveraging Market Data to Deliver Insights

The MSRB is increasingly focused on analyzing the data it collects to identify trends in the market and inform MSRB regulatory and other activities as well as assist market participants, policymakers and the public in developing a deeper understanding of the municipal securities market. Over the course of the year, the MSRB delivered several analyses, some of which are discussed below.

In [2020 Municipal Bond Market in Review](#), the MSRB’s market structure experts analyzed notable trends during an extraordinary year in the municipal bond market that saw a severe market disruption and an impressive recovery, as well as record new issuance and a spike in taxable issuance.

In [Municipal Securities Market Sees Noticeable Shift in Buying Patterns](#), MSRB market structure experts uncovered a noticeable shift in municipal market behavior and structure over the last decade, driven by customer buying patterns that include the increased use of separately managed accounts, mutual funds and exchange traded funds.



In *Transaction Costs During the COVID-19 Crisis*, the MSRB's chief economist and market structure colleagues analyzed the evolution of transaction costs in the municipal and corporate bond markets during the COVID-19 liquidity crisis and the subsequent recovery.

In *Overview of the Taxable Municipal Bond Market*, the MSRB studied the evolution of the taxable municipal bond market over the last decade, comparing a typical year to years when taxable municipal bond issuance was particularly high.

The MSRB also assessed the impact of electronic trading technology on the municipal securities market by analyzing inter-dealer trading activity on alternative trading systems (ATS) and broker's broker platforms in *Characteristics of Municipal Securities Trading on Alternative Trading Systems and Broker's Broker Platforms*.



INNOVATING IN EMMA LABS

Improving data utility requires collaboration, and that is why the MSRB created EMMA Labs. EMMA Labs is the MSRB's innovation sandbox where municipal market participants can collaborate directly with our staff to generate ideas and test out concepts that could be the future of data analytics tools and services available on the free EMMA website.

The MSRB is inviting market stakeholders to join EMMA Labs and provide feedback on two active labs—an advanced keyword search engine allowing users to unlock the information contained within the hundreds of thousands of disclosure documents submitted to EMMA as unstructured PDFs, and a dynamic market data analysis dashboard that empowers users to discover market trends and patterns.

Idea generation and innovation doesn't stop at these two labs, however. The MSRB continues to seek innovation opportunities through Idea Labs, where stakeholders can provide comments and feedback on concepts and potential future prototypes.

Modernizing Market Regulation

The market that Congress charged the MSRB to regulate has changed dramatically over the years with the evolution of technology and the way the business is conducted. As the market evolves, the MSRB must continually adapt its rules to make sure they continue to protect investors, issuers and the public interest while avoiding unnecessary burdens on regulated dealers and municipal advisors.

As part of its ongoing retrospective rule review, in FY 2021, the MSRB began a comprehensive review of the historical body of interpretive guidance in the MSRB rule book to identify whether guidance needs to be clarified or amended, or whether it needs to be retired because it no longer achieves intended purposes. As an initial step, the MSRB retired 15 pieces of guidance from the MSRB rule book effective May 10, 2021. The MSRB believes this multi-year initiative to be an impactful way to support compliance and reduce unnecessary costs and burdens for regulated entities while continuing to maintain important market protections.

In light of the ongoing impact of the pandemic, the MSRB continued to provide regulatory relief to dealers and municipal advisors. For dealers, the MSRB amended Rule G-27 to allow them to continue to conduct internal inspections remotely on a temporary basis and provided additional time to complete the applicable data elements required on amended Form G-32 in connection with primary offerings of municipal securities. For municipal advisors, the MSRB extended the compliance deadline for individuals engaged in the management, direction or supervision of the municipal advisory activities of the firm to pass the Municipal Advisor Principal Qualification Examination (Series 54 exam). The MSRB also temporarily offered an online version of the exam to facilitate compliance by the deadline of November 30, 2021.

Among the rule changes implemented or proposed during the 2021 fiscal year, the MSRB filed to amend Rule G-10 to allow dealers to limit the provision of required notifications under the rule to customers holding municipal securities positions or customers for whom a purchase or sale of a municipal security was effected in the past year. The MSRB also filed an accompanying amendment to Rule G-48 to allow dealers to conditionally exclude sophisticated municipal market professionals from the requirements.

The MSRB also solicited public comment on a proposed a new draft Rule G-46 that would codify interpretive guidance issued in 2017 referring to the obligations of solicitor municipal advisors under MSRB Rule G-17 and would include additional requirements that would better align some of the obligations imposed on solicitor municipal advisors with those applicable to non-solicitor municipal advisors under Rule G-42 and to underwriters under Rule G-17. The MSRB sought public comment on a draft amendment to Rule G-19, as well, which would require bank dealers to comply with the SEC's Regulation Best Interest when making recommendations of securities transactions or investment strategies involving municipal securities to retail customers.

MARKET REGULATION GOAL



Our goal is to modernize municipal securities market regulation through a prudent and practical approach that promotes a fair and efficient market and facilitates capital formation; aligns with the broader landscape of securities regulation; addresses market harms to investors and issuers; analyzes costs and benefits of compliance burdens; and strengthens our market and the opportunities it provides.



HEARING FROM MUNICIPAL ADVISORS AROUND THE COUNTRY

Over the course of the summer, the MSRB held five virtual regional town halls with more than 260 participants from municipal advisor firms across the country. This was a unique opportunity for the MSRB to hear from municipal advisors in different parts of the country, many of whom specialize in unique types of transactions and have different business models. MSRB staff also joined the SEC and Financial Industry Regulatory Authority (FINRA) for a virtual compliance outreach program for municipal advisors. Forums like these help the MSRB develop guidance and compliance resources that account for regional differences and help all municipal advisors to do their jobs effectively, efficiently and fairly no matter where they practice.

| Upholding the Public Trust |

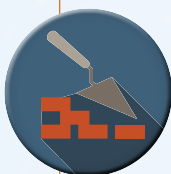
As the principal regulator of the municipal securities market, the MSRB is committed to upholding the public trust and the integrity of the market that enables access to capital, economic growth, and societal progress in tens of thousands of communities across the country. Upholding the public trust requires a commitment to social responsibility, diversity, equity and inclusion, a commitment that the MSRB is striving to fulfill both within the organization, on the governing board and in the market it serves.

Over the past year, the MSRB focused on making measurable improvements such as increasing the diversity of its Board. The MSRB recruited a new class of four board members, three of whom are women and three of whom are racial minorities, bringing the full Board to two-thirds women and one-quarter racial minorities. In addition, 54% of our staff identify as a racial minority, and the MSRB continues to strive to recruit and retain an even more diverse workforce. A diverse workforce is one of the factors that helps the MSRB create a corporate culture that is equitable and inclusive, rooted in our core values of trust, integrity, teamwork and excellence. Staff are leading DEI efforts within the organization through a newly formed staff council called Unity+. Among their contributions are monthly educational discussions about key figures in the fight for social equity and justice.

And for the ninth year, the MSRB was proud to support the Municipal Forum of New York's Urban Leadership Fellows Program for New York City high school students, hosting a virtual panel discussion on regulatory and policy careers in public finance. The MSRB believes that creating opportunities for young people from all backgrounds to explore careers in public finance helps advance its goal of greater diversity and inclusion in the capital market that has such a profound impact on communities across America.

As part of its effort to elevate the discussion on environmental, social and governance (ESG) factors in the municipal securities market, the MSRB is looking inward to evaluate changes it can make to reduce the organization's environmental impact. This includes an effort to reduce the MSRB's own carbon footprint.

The MSRB is also committed to making a difference in our local Washington, DC community through volunteer and fundraising activities. While the challenges of the pandemic limited these activities over the past year, MSRB staff were able to coordinate efforts to donate toys for Playtime Project, a charity that offers safe and fun playtime opportunities to children experiencing homelessness, as well as coats and monetary donations for Miriam's Kitchen, a trusted resource for homeless individuals and families.



PUBLIC TRUST GOAL

Our goal is to fulfill our Congressional mandate to protect the public interest. We do this by fostering dialog and working collaboratively with all market participants and the broader community we serve and building an organization that lives according to its core values and delivers on its strategic goals.

17

comment letters and 13 stakeholder interviews to inform the development of the strategic plan

56

interviews with EMMA and MSRB.org website users to help reimagine the user experience

75+

conferences and meetings with market stakeholders

5

virtual regional town halls for municipal advisors

4

free educational webinars serving 1,299 attendees

3

podcasts discussing key topics of interest to stakeholders



ENGAGING WITH STAKEHOLDERS

Engagement with municipal market stakeholders continues to be a top priority for the MRSB, helping to inform the MSRB's work to protect and strengthen the municipal bond market. Although remote work continued to be the norm throughout the year, MSRB staff and Board members were able to connect with external stakeholders through virtual meetings and conferences, webinars and other outreach activities, while weekly all-staff video check-ins helped MSRB staff retain a sense of community.

Among the various outreach activities conducted during the year, MSRB Board members and staff held in-depth interviews with market stakeholders to inform the development of its new long-term strategic plan. Meanwhile, staff interviewed internal and external stakeholders on what they would like to see in an MSRB website redesign and continued to work with stakeholders to enhance the EMMA user experience and mature EMMA Labs. The MSRB held a series of virtual regional town halls for municipal advisors as well as a webinar on its initiative to retire interpretive guidance. MSRB staff also hosted webinars on finding and submitting information on EMMA and on navigating the amended Form G-32, and produced podcasts reviewing the extraordinary market dynamics of 2020, as well as its Board member recruitment and systems modernization efforts.

BOARD OF DIRECTORS 2021–2022

MSRB is governed by a Board of Directors that consists of 15 members, including eight public members and seven representatives of municipal securities dealers and municipal advisors, all of whom have deep expertise in the municipal securities market.

OFFICERS

Patrick Brett
Chair

Meredith L. Hathorn
Vice Chair

PUBLIC REPRESENTATIVES



Jennie Huang Bennett
Chief Financial Officer
City of Chicago
Chicago, Illinois



Caroline Cruise
Portfolio Manager
Loews Corporation
New York, New York



Joseph Darcy
Retired
Belle Mead, New Jersey



Meredith L. Hathorn
Managing Partner
Foley & Judell, LLP
Baton Rouge, Louisiana



Katano Kasaine
Assistant General Manager
and Chief Financial Officer
Metropolitan Water
District of Southern
California
Los Angeles, California



Carol Kostik
Retired
New York, New York



Thalia Meehan
Retired
Boston, Massachusetts



Donna Simonetti
Retired
Portland, Maine

SECURITIES FIRM REPRESENTATIVES



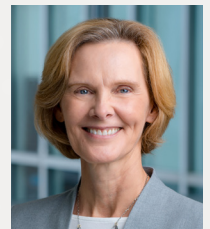
Warren "Bo" Daniels
Managing Director and
Head of Public Finance
Loop Capital Markets
Atlanta, Georgia



Francis ("Frank") Fairman
Managing Director and Head
of Public Finance Services
Piper Sandler & Co.
Minneapolis, Minnesota



Seema Mohanty
Founder and Managing
Director
Mohanty Gargiulo, LLC
New York, New York



Liz Sweeney
President and Founder
Nutshell Associates, LLC
Lutherville-Timonium,
Maryland

MUNICIPAL ADVISOR REPRESENTATIVES

BANK REPRESENTATIVES



Patrick Brett
Managing Director |
Head of Municipal Debt
Capital Markets & Capital
Solutions
Citi
New York, New York



Daniel Kiley
Managing Director and
Head of Municipal Fixed
Income Trading
Wells Fargo Advisors
St. Louis, Missouri



Angelia Schmidt
Managing Director and
Head of Underwriting
UBS
New York, New York

MSRB SENIOR LEADERSHIP



Mark T. Kim
Chief Executive Officer



Nanette D. Lawson
Chief Operating Officer



Omer Ahmed
Chief Financial Officer



Brian Anthony
Chief Data Officer



John A. Bagley
Chief Market
Structure Officer



Adam Cusson
Chief Technology Officer



Jill Furick
Chief People Officer



Jacob Lesser
General Counsel

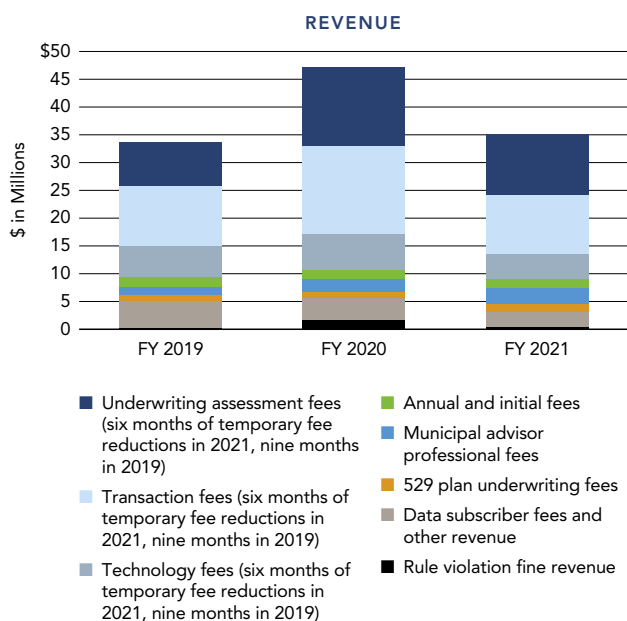


Gail Marshall
Chief Regulatory Officer



Leah Szarek
Chief External
Relations Officer

2021 FINANCIAL HIGHLIGHTS



September 30	2021	2020	2019
Statements of Financial Position			
Total Assets	\$ 78,531,119	\$ 83,153,694	\$ 80,231,181
Total Liabilities	10,936,216	9,492,157	9,943,197
Total Net Assets — Without Restrictions	\$ 67,594,903	\$ 73,661,537	\$ 70,287,984
Statements of Activities			
Revenue:			
Underwriting assessment fees (six months of temporary fee reductions in 2021, nine months in 2019)	\$ 11,047,685	\$ 14,344,739	\$ 8,079,274
Transaction fees (six months of temporary fee reductions in 2021, nine months in 2019)	10,551,879	15,810,342	10,817,184
Technology fees (six months of temporary fee reductions in 2021, nine months in 2019)	4,498,381	6,421,457	5,442,066
Annual and initial fees	1,623,000	1,717,000	1,787,000
Municipal advisor professional fees	2,945,000	2,275,500	1,564,500
529 plan underwriting fees	1,331,954	1,166,953	991,399
Data subscriber fees and other revenue	2,777,994	3,970,421	4,942,415
Rule violation fine revenue	321,587	1,539,855	151,183
Total Revenue	35,097,480	47,246,267	33,775,021
Expenses	41,164,114	43,872,714	42,302,498
Change in Net Assets	\$ (6,066,634)	\$ 3,373,553	\$ (8,527,477)
Statements of Cash Flows			
Cash Provided (Used) from Operating Activities	\$ 3,505,534	\$ 3,192,169	\$ (3,890,127)
Cash Investment in Technology Systems and Other Fixed Assets	\$ 4,329,736	\$ 2,076,376	\$ 2,102,314



MSRB

Financial Statements as of and for the Years Ended September 30, 2021 and 2020

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Report of Independent Auditors

To the Board of Directors of
The Municipal Securities Rulemaking Board

We have audited the accompanying financial statements of the Municipal Securities Rulemaking Board (the MSRB), which comprise the statements of financial position as of September 30, 2021 and 2020 and the related statements of activities, functional expenses and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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 our 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, we consider internal control relevant to the 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 the 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 MSRB as of September 30, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

December 17, 2021

PricewaterhouseCoopers LLP, 655 New York Ave NW, Suite 1100 Washington DC 20001
www.pwc.com

STATEMENTS OF FINANCIAL POSITION

For September 30, 2021 and 2020

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 4,846,344	\$ 3,016,334
Accounts receivable — net	3,848,794	7,585,466
Prepaid and other assets	1,663,128	1,785,453
Accrued interest receivable	191,678	234,692
Investments	57,391,169	61,005,061
Fixed assets — net	10,590,006	9,526,688
TOTAL ASSETS	\$ 78,531,119	\$ 83,153,694
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 3,824,014	\$ 2,279,344
Accrued vacation payable	1,166,914	908,291
Data subscription contract liabilities	214,700	214,705
Lease obligation	3,751	4,430
Deferred rent	5,726,837	6,085,387
Total liabilities	10,936,216	9,492,157
Undesignated net assets	52,752,508	62,509,457
Designated, systems modernization fund	14,842,395	10,000,000
Designated, cloud fund	—	1,152,080
Net assets — without restrictions	67,594,903	73,661,537
TOTAL LIABILITIES AND NET ASSETS	\$ 78,531,119	\$ 83,153,694

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

STATEMENTS OF ACTIVITIES

<i>For the years ended September 30, 2021 and 2020</i>	2021	2020
REVENUE:		
Underwriting assessment fees	\$ 11,047,685	\$ 14,344,739
Transaction fees	10,551,879	15,810,342
Technology fees	4,498,381	6,421,457
Annual and initial fees	1,623,000	1,717,000
Data subscriber fees	2,359,086	2,049,720
Municipal advisor professional fees	2,945,000	2,275,500
529 plan underwriting fees	1,331,954	1,166,953
Rule violation fine revenue	321,587	1,539,855
Other income	418,908	1,920,701
Total Revenue	35,097,480	47,246,267
EXPENSES:		
Market Regulation	3,979,560	4,256,755
Market Transparency and Technology	20,244,228	21,931,427
Market Structure and Data	4,587,424	4,182,276
External Relations	2,821,348	2,846,805
Governance and Leadership	5,174,561	5,706,986
Finance, Risk and Administration	4,356,993	4,948,465
Total Expenses	41,164,114	43,872,714
CHANGE IN NET ASSETS	(6,066,634)	3,373,553
NET ASSETS — Beginning of year	73,661,537	70,287,984
NET ASSETS — End of year	\$ 67,594,903	\$ 73,661,537

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

STATEMENTS OF FUNCTIONAL EXPENSES

Year ended September 30, 2021

	Program Activities					Supporting Activities		
	Market Regulation	Market Transparency and Technology	Market Structure and Data	External Relations	Program Totals	Governance and Leadership	Finance, Risk and Administration	Total Expenses
Compensation of current officers, directors, other salaries and employee benefits	\$ 3,250,201	\$ 8,442,212	\$ 3,343,430	\$ 1,122,720	\$ 16,158,563	\$ 3,865,680	\$ 3,069,678	\$ 23,093,921
Fees for services	70,738	3,121,423	494,949	956,861	4,643,971	538,628	425,053	5,607,652
Information technology	105,347	3,418,240	128,865	141,872	3,794,324	118,406	173,794	4,086,524
Occupancy	332,940	943,218	357,242	115,764	1,749,164	291,175	303,648	2,343,987
Travel and meetings	10,989	6,138	1,496	1,024	19,647	55,798	32,328	107,773
Depreciation and amortization	59,976	2,677,728	64,354	264,022	3,066,080	52,453	54,699	3,173,232
Insurance	26,230	73,001	28,144	9,120	136,495	159,533	23,922	319,950
Data and information services	26,303	1,156,107	28,620	6,670	1,217,700	—	—	1,217,700
Dues, registration and training	19,562	39,238	23,923	7,469	90,192	4,060	25,846	120,098
Property and other taxes	11,053	196,055	53,460	101,510	362,078	11,465	18,657	392,200
Office and other expenses	66,221	170,868	62,941	94,316	394,346	77,363	229,368	701,077
Total Expenses	\$ 3,979,560	\$ 20,244,228	\$ 4,587,424	\$ 2,821,348	\$ 31,632,560	\$ 5,174,561	\$ 4,356,993	\$ 41,164,114

STATEMENTS OF FUNCTIONAL EXPENSES

Year ended September 30, 2020

	Program Activities					Supporting Activities		
	Market Regulation	Market Transparency and Technology	Market Structure and Data	External Relations	Program Totals	Governance and Leadership	Finance, Risk and Administration	Total Expenses
Compensation of current officers, directors, other salaries and employee benefits	\$ 3,119,904	\$ 7,830,832	\$ 3,156,663	\$ 1,371,423	\$ 15,478,822	\$ 3,975,243	\$ 3,201,649	\$ 22,655,714
Fees for services	291,828	5,398,042	322,795	629,104	6,641,769	1,000,790	658,484	8,301,043
Information technology	117,773	2,775,813	103,430	137,685	3,134,701	69,432	172,307	3,376,440
Occupancy	363,802	932,718	361,541	155,479	1,813,540	196,624	355,681	2,365,845
Travel and meetings	60,962	18,569	17,024	23,280	119,835	197,578	29,012	346,425
Depreciation and amortization	110,414	3,312,322	109,728	315,222	3,847,686	59,676	107,950	4,015,312
Insurance	24,810	62,451	24,656	10,603	122,520	132,793	24,256	279,569
Data and information services	27,547	1,223,719	—	7,305	1,258,571	—	—	1,258,571
Dues, registration and training	27,876	56,319	10,981	11,245	106,421	15,884	45,400	167,705
Property and other taxes	1,232	114,553	6,810	91,565	214,160	6,364	8,662	229,186
Office and other expenses	110,607	206,089	68,648	93,894	479,238	52,602	345,064	876,904
Total Expenses	\$ 4,256,755	\$ 21,931,427	\$ 4,182,276	\$ 2,846,805	\$ 33,217,263	\$ 5,706,986	\$ 4,948,465	\$ 43,872,714

STATEMENTS OF CASH FLOWS

For the years ended September 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (6,066,634)	\$ 3,373,553
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,173,232	4,015,312
Net loss on disposal of long-lived assets	–	52,306
Net investment returns	959,001	(452,649)
Bad debt expense	77,729	137,310
Changes in assets and liabilities:		
Accounts receivable	3,658,943	(3,085,398)
Prepaid and other assets	219,011	(435,880)
Accrued interest receivable	43,014	15,384
Accounts payable and accrued liabilities	1,541,170	(234,907)
Accrued vacation payable	258,623	152,089
Data subscription contract liabilities	(5)	(28,769)
Deferred rent	(358,550)	(316,182)
Net cash provided by operating activities	3,505,534	3,192,169
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of long-lived assets	(4,329,736)	(2,076,376)
Purchases of investments	(30,029,072)	(41,303,105)
Maturities of investments	32,683,963	41,875,000
Net cash used in investing activities	(1,674,845)	(1,504,481)
CASH FLOW FROM FINANCING ACTIVITY		
Payments of lease obligation	(679)	(106)
Net cash used in financing activities	(679)	(106)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,830,010	1,687,582
CASH AND CASH EQUIVALENTS, Beginning of year	3,016,334	1,328,752
CASH AND CASH EQUIVALENTS, End of year	\$ 4,846,344	\$ 3,016,334
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Accrual of leasehold improvements	\$ 3,500	\$ –
Property acquired under finance lease	\$ –	\$ 4,536

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

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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 (SRO) 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, operates the Electronic Municipal Market Access (EMMA[®]) website to promote transparency and widespread access to information, and also engages with stakeholders on a variety of topics.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

COVID-19 Implications on Operations and Liquidity — In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally resulting in mandates from federal, state and local authorities regarding shutdowns and remote work. The MSRB has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for MSRB staff. In addition, the MSRB has taken steps to monitor and mitigate the effects of COVID-19 on the industry. There has not been a material impact on the operations and liquidity of the MSRB and as discussed in note 12, reserves are maintained to ensure funding of critical operations. The ultimate impact of COVID-19 is not reasonably estimable at this time and the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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). The MSRB is required to report the following net asset classifications:

- Net assets without restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the MSRB. These net assets may be used at the discretion of MSRB's management and the Board.
- Net assets with restrictions: Net assets subject to stipulations imposed by donors and grantors. The MSRB does not have donor restricted net assets.

Fair Value Measurement — The MSRB measures fair value in accordance with the provisions of Financial Accounting Standards Board (FASB) ASC 820, Fair Value Measurement, which provides a common definition of fair value for GAAP, 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 (U.S.) Government with a total fair market value of approximately \$4.0 million and \$2.2 million at September 30, 2021 and 2020, respectively.

Investments — Investments are stated at fair value. Investments consist of U.S. Treasury notes, obligations of U.S. government sponsored enterprises that are fully guaranteed by the U.S. Government, and certificates of deposit that are FDIC insured.

Amortization and accretion of investment premiums and discounts are recorded as a component of investment return which is included in Other Income in the Statements of Activities.

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 with one account balance exceeding the FDIC limit by approximately \$486,000 and \$506,000 at September 30, 2021 and 2020, respectively. MSRB investments are backed by the full faith and credit of the U.S. Government or its fully guaranteed government sponsored enterprises. 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. Six regulated entities accounted for approximately one-third of total fee revenue in fiscal year 2021 and five regulated entities accounted for approximately one-third of total fee revenue in fiscal year 2020.

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.

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 deployments are completed and the software is ready for its intended use, internally developed software costs are amortized using the straight-line method over three or five years, depending upon the expected useful life.

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 a non-cancelable operating lease 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 a component of deferred rent and recognized as a reduction to rent expense on a straight-line basis over the lease term.

Data Subscription Contract Liabilities — Data subscription contract liabilities relates to payments received in advance of the satisfaction of performance under the data subscription contract which is the delivery of the data feeds. We receive payments from data subscribers based upon the terms established in our contracts.

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. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation determined by management on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization, occupancy, internal information technology, office expenses, general insurance, and personal property taxes, which are allocated based upon a percentage of total salaries. Certain salaries were allocated based upon estimated efforts.

Functional Descriptions:

Market Regulation — This group is responsible for developing and maintaining the MSRB rules that establish responsibilities and standards for brokers, dealers and municipal securities dealers affecting municipal securities transactions and for municipal advisors that engage in municipal advisory activities. These staff also maintain the MSRB's professional qualifications program, create compliance and educational resources for regulated entities and provide assistance to other securities regulators that examine for compliance with and enforce MSRB rules.

Market Transparency and Technology — These groups are responsible for developing and operating the MSRB's market transparency and information systems that receive, process and disseminate market-critical data and documents relied on by the municipal securities market, supporting business operations and optimizing the business experience. Cybersecurity prevention, detection and incident response are also the responsibility of these staff.

Market Structure and Data — These groups are responsible for initiatives that provide insight into the municipal market through data research and analysis. This includes a focus on the governance, quality and analysis of data collected by the MSRB's market transparency systems and providing economic analysis and research relating to regulatory and transparency projects. Economic analysis informs the regulatory approach to addressing an identified need for rulemaking and evaluates the cost of the regulation against the benefit to the market. Working with market transparency and technology, these groups also guide strategic development and ongoing improvements of MSRB's market transparency systems including the EMMA[®] website.

External Relations — This group is responsible for managing and supporting efforts to engage and communicate with external stakeholders, including investors, issuers, regulated entities, fellow regulators and policy makers responsible for oversight of the MSRB. The MSRB's external relations staff oversee MSRB corporate communications, government relations, events, education programs and related activities.

Governance and Leadership — This group consists of the members of the Board of Directors and certain staff, including executive leadership and internal legal and governance staff in supporting roles. The Board of Directors consists of a majority public members, including issuers and investors, as well as members representing regulated entities, including municipal advisors, broker-dealers and banks. The Board exercises oversight of the operation and administration of the organization, makes policy decisions and authorizes rulemaking and market transparency initiatives.

Finance, Risk and Administration — These groups are responsible for the day-to-day financial, risk, people and facilities management at the MSRB ensuring appropriate spending, staffing and application of internal controls while supporting operations. These groups include accounting, administrative services, human resources, finance and risk management.

Reclassifications — Certain amounts in the fiscal year 2020 financial statements have been reclassified to conform to the fiscal year 2021 presentation. For fiscal year 2020 functional expense reporting, functional areas have been redefined to align with MSRB's allocation of resources to strategic goals of modernizing market regulation, providing market transparency through technology, fueling innovation through data and upholding the public trust. Redefining functional areas required certain salaries and expenses attributable to the function, be reallocated based upon estimated efforts and expenses that are allocated based upon a percentage of total salaries be reallocated.

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 \$137,500 for the years ended September 30, 2021 and 2020.

Revenue Recognition:

As the self-regulatory organization for the municipal market, the MSRB's performance obligations under the Exchange Act include the adoption of rules regulating the municipal securities activities of brokers, dealers and municipal securities dealers, and the municipal advisory activities of municipal advisors; collecting and disseminating market information; and operating the Electronic Municipal Market Access (EMMA[®]) website. In addition, the MSRB engages in outreach and provides education to stakeholders and provides enforcement support to other regulators who enforce MSRB rules. Circumstances may exist where such revenue could become variable, the estimate of variable consideration is not typically constrained, as any effects of such variable consideration are known to the MSRB prior to the release of the financial statements.

Underwriting Assessment Fees — The underwriting assessment fee on municipal securities dealers acting as underwriters is required to be paid per Rule A-13 and 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. Consistent with the Board's stated approach to monitor and manage organizational reserve levels, the Board temporarily reduced the rate of assessment for municipal securities dealers' underwriting during the third and fourth quarters of fiscal year 2021 extending until September 30, 2022 to \$.0165 per \$1,000 of the par value of municipal securities purchased by underwriters from an issuer as part of a new issue.

The performance obligation associated with underwriting assessment fees is satisfied in the month the underwriter files the offering document with the MSRB at which time revenue is recognized.

Transaction Fees — The transaction fee on municipal securities dealers is required to be paid per Rule A-13 and is \$0.01 per \$1,000 par value of bonds sold and is levied on both customer and interdealer transactions as specified in Rule A-13. As described in this rule, certain transactions are exempt from this fee. Consistent with the Board's stated approach to monitor and manage organizational reserve levels, the Board temporarily reduced the rate of assessment for municipal securities dealers' transaction fees related to market activity during the third and fourth quarters of fiscal year 2021 extending until September 30, 2022 to \$.0060 per \$1,000 of the par value of bonds sold.

The performance obligation associated with transaction fees is satisfied as transactions are settled at which time revenue is recognized.

Technology Fees — The technology fee on municipal securities dealers is required to be paid per Rule A-13 and is \$1.00 per municipal security trade for all customer and interdealer sales transactions. Consistent with the Board's stated approach to monitor and manage organizational reserve levels, the Board temporarily reduced the rate of assessment for municipal securities dealers' technology fees related to market activity during the third and fourth quarters of fiscal year 2021 extending until September 30, 2022 to \$0.60 per municipal security trade.

The performance obligation associated with technology fees is satisfied as sales transactions are settled at which time revenue is recognized.

Data Subscriber Fees — For a fee, the MSRB provides access to four electronic information systems that collect, store and provide 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 and the performance obligations associated with these data subscriptions are satisfied over-time as services are rendered with revenue recognized straight-line over the period of service. In addition, the MSRB sells annual historical data sets 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 \$1,000 for fiscal years 2021 per Rule A-11. In September 2019, the MSRB filed with the SEC a proposed rule change for immediate effectiveness to amend MSRB Rule A-11 on assessments for municipal advisor professionals to increase the annual municipal advisor per professional fee from \$500 to \$750 in fiscal year 2020 and \$1,000 in fiscal year 2021.

The performance obligation associated with municipal advisor professional fees is satisfied when the number of associated persons for whom the firm has filed a Form MA-I with the Securities and Exchange Commission (SEC) as of January 31 is confirmed and billed in April at which time revenue is recognized.

529 Plan Underwriting Fees — Underwriters to 529 savings plans must pay an annual fee of \$.005 per \$1,000 of the total aggregate plan assets as of December 31 of each year as reported on MSRB Form G-45, and as required to be paid per Rule A-13.

The performance obligation associated with 529 plan underwriting fees is satisfied when the total aggregate plan assets as of December each year are reported on MSRB Form G-45 are processed and billed in May at which time revenue is recognized.

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. 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 one-time fee of \$1,000 which is to be paid by every regulated entity upon registration with the MSRB under Rule A-12. Initial fee revenue is recognized when received.

Rule Violation Fine Revenue — The Dodd-Frank Act provides that fines collected by the 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. The performance obligation associated with fine revenue is satisfied when the fines are paid to the SEC or FINRA at which time MSRB's allocable portion is recognized as revenue.

Professional Qualification Examination Fees — Rule A-16 establishes the examination fee on persons taking certain qualification examinations of \$150 per exam. These examinations include the Series 50 (Municipal Advisor Representative Qualification Examination), Series 51 (Municipal Fund Securities Limited Principal Qualification Examination), Series 52 (Municipal Securities Representative Qualification Examination), Series 53 (Municipal Securities Principal Qualification Examination) and Series 54 (Municipal Advisor Principal Qualification Examination).

Professional qualification examination fees are recognized in the month the exams are administered and totaled \$303,150 and \$274,200 for the years ended September 30, 2021 and 2020, respectively. Professional qualification examination fees are included in other income in the accompanying statements of activities.

New Accounting Pronouncements:

The MSRB has adopted Accounting Standards Update (ASU) No. 2014-09 - Revenue from Contracts with Customers (Topic 606) effective October 1, 2020. Under the new standard, we apply a principles-based five step model to recognize revenue upon the transfer of control of promised goods or services and in an amount that reflects the consideration for which we expect to be entitled. Analysis of various provisions of this standard resulted in no significant changes in the way the MSRB recognizes revenue. The MSRB adopted the standard using the modified retrospective approach and therefore no changes to the previously issued audited financial statements were required. The presentation and disclosures of revenue have been enhanced in accordance with this standard.

In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-15 – Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 250-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This standard is effective for the fiscal year ending September 30, 2022. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Management is in the process of evaluating the impact the standard will have on the financial statements and relevant disclosures for the year ending September 30, 2022.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the guidance in former Accounting Standards Codification (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. On November 15, 2019, the FASB issued ASU No. 2019-10 delaying the effective date for the new lease accounting standard and in June 2020 the FASB issued ASU No. 2020-05 extending the deferral to entities that have not yet issued their financial statements. The effective date has now been postponed until the fiscal year ending September 30, 2023. Upon adoption of ASU 2016-02, entities are permitted to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective or full retrospective approach. Management is in the process of evaluating the impact the standard will have on the financial statements and relevant disclosures for the year ending September 30, 2023.

3. INVESTMENTS

Investments as of September 30, 2021 and 2020, consist of the following:

	2021	2020
U.S. Treasury notes and bills	\$ 41,897,979	\$ 35,120,241
Certificates of deposit	14,486,275	19,734,216
Government-guaranteed agency securities	1,006,915	6,150,604
Total investments	\$ 57,391,169	\$ 61,005,061

Government-guaranteed agency securities include Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds, government sponsored enterprises 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, D.C. 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 and is valued at \$139,375 and \$133,963 as of September 30, 2021 and 2020, respectively.

Net investment returns disclosed net of internal direct investment expenses of approximately \$15,000 and \$18,000 in 2021 and 2020, respectively are included in other income in the accompanying statements of activities for the fiscal years ended September 30, 2021 and 2020 and consists of the following:

	2021	2020
Interest and dividends	\$ 616,318	\$ 1,169,546
Unrealized (loss) gains	(586,439)	397,787
Realized loss	(93)	(2,026)
Total net investment return	\$ 29,786	\$ 1,565,307

4. FAIR VALUE MEASUREMENTS

The carrying amounts of financial instruments, including cash and cash equivalents not subject to fair value measurements, receivables, accounts payable and accrued expenses, approximate fair value as of September 30, 2021 and 2020 because of the relatively short duration of these instruments.

The MSRB carries certain financial instruments at fair value which we define as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The MSRB is responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions.

The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. The MSRB maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability, and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, and the characteristics specific to the transaction, liquidity and general market conditions.

The MSRB's policy uses the GAAP framework for measuring fair value, which provides a fair value hierarchy based on observable inputs. The hierarchy reflects three levels based on the transparency of inputs as follows:

Level 1 — Fair value measurements that are based on quoted prices (unadjusted) in active markets that the MSRB has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets.

Level 2 — Fair value measurements based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 — Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, the MSRB would make assumptions about the inputs a hypothetical market participant would use to value that asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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 2 investments include U.S. Treasury notes, obligations of U.S. government sponsored enterprises fully guaranteed by the U.S. Government 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, 2021 and 2020, based on the following levels of hierarchy:

2021		Level 1	Level 2	Level 3	Total	
U.S. Treasury notes	\$	–	\$ 41,897,979	\$	–	\$ 41,897,979
Certificates of deposit		–	14,486,275		–	14,486,275
Government-guaranteed agency securities		–	1,006,915		–	1,006,915
Total investments	\$	–	\$ 57,391,169	\$	–	\$ 57,391,169

2020		Level 1	Level 2	Level 3	Total	
U.S. Treasury notes	\$	–	\$ 35,120,241	\$	–	\$ 35,120,241
Certificates of deposit		–	19,734,216		–	19,734,216
Government-guaranteed agency securities		–	6,150,604		–	6,150,604
Total investments	\$	–	\$ 61,005,061	\$	–	\$ 61,005,061

5. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2021 and 2020 consist of the following:

	2021	2020
Billed accounts receivable	\$ 3,112,010	\$ 5,899,184
Unbilled accounts receivable	990,236	1,881,216
	4,102,246	7,780,400
Less allowance for doubtful accounts	(253,452)	(194,934)
Total accounts receivable — net	\$ 3,848,794	\$ 7,585,466

Unbilled receivables at September 30, 2021 and 2020 consist primarily of September transaction and technology fees revenue billed in early November.

6. PREPAID AND OTHER ASSETS

Prepaid and other assets as of September 30, 2021 and 2020 consist of the following:

	2021	2020
Prepaid assets	\$ 1,556,443	\$ 1,767,565
Deposits	106,685	17,888
Total prepaid and other assets	\$ 1,663,128	\$ 1,785,453

7. FIXED ASSETS

Fixed assets as of September 30, 2021 and 2020 consist of the following:

	2021	2020
Capitalized software costs	\$ 38,506,467	\$ 34,742,961
Leasehold improvements	4,015,688	4,059,696
Computer and office equipment	1,895,060	3,904,635
Furniture and fixtures	1,711,672	1,711,672
Total fixed asset acquisition costs	46,128,887	44,418,964
Less accumulated depreciation and amortization:		
Capitalized software costs	(30,537,776)	(27,987,437)
Leasehold improvements	(1,662,373)	(1,461,282)
Computer and office equipment	(1,632,952)	(3,797,440)
Furniture and fixtures	(1,705,780)	(1,646,117)
Total fixed asset accumulated depreciation and amortization	(35,538,881)	(34,892,276)
Total fixed assets — net	\$ 10,590,006	\$ 9,526,688

Depreciation expense and amortization expense during fiscal years 2021 and 2020 are as follows:

	2021	2020
Depreciation expense	\$ 136,505	\$ 625,256
Amortization expense for capitalized software cost and leasehold improvements	3,036,727	3,390,056
Total depreciation and amortization expense	\$ 3,173,232	\$ 4,015,312

Impairment of long-lived assets — Through regular review of long-lived assets, in fiscal years 2021 and 2020 no estimated impairment loss was recognized.

Leasehold improvements — In conjunction with the Washington, D.C. office lease, the landlord provided up to \$4.4 million in landlord incentives, of which \$4.03 million funded leasehold improvements and \$323,000 offset future rent payments. Included in fiscal year ended September 30, 2021 leasehold improvements, is approximately \$31,000 of work-in-process costs for improvements not yet implemented.

Capitalized software costs — For the fiscal years ended September 30, 2021 and 2020, \$3.4 million and \$1.5 million, respectively, of internally developed work-in-process costs for software not yet implemented are included in capitalized software costs.

Capital Leased Equipment — Included in fiscal year 2021 Furniture and fixtures is the capitalized lease of a postage meter with a cost of \$4,536 and recognized depreciation expense of \$864 and \$144 in fiscal year ended September 30, 2021 and 2020, respectively. See Note 9 for a schedule of future minimum lease payments under this non-cancelable capital lease.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of September 30, 2021 and 2020 consist of the following:

	2021	2020
Accounts payable and accrued expenses	\$ 1,752,917	\$ 1,785,175
Salaries, taxes and benefits payable	2,071,097	494,169
Total accounts payable and accrued liabilities	\$ 3,824,014	\$ 2,279,344

9. COMMITMENTS AND CONTINGENCIES

Operating Leases — The MSRB leases office space under operating lease arrangements. The MSRB moved to new office space in Washington, D.C. in December 2015 and the lease will expire in fiscal year 2031.

The D.C. lease contains an escalation clause 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 fiscal years ended September 30, 2021 and 2020 was \$2,322,566 and \$2,345,936, respectively.

The MSRB had lease agreements for website hosting, business continuity and disaster recovery. Total lease payments under these operating leases for the fiscal years ended September 30, 2021 and 2020, were \$66,820 and \$345,080, respectively. Beginning fiscal year 2019 and completing in fiscal year 2020, the MSRB undertook an enterprise-wide migration of MSRB's systems to the cloud allowing for the closure of two of three data centers during fiscal year 2020 and the closure of the third in early fiscal year 2021. Under the new cloud-based agreement for website hosting, business continuity and disaster recovery, the MSRB paid \$1,908,415 and \$814,485 during fiscal years ended September 30, 2021 and 2020, respectively.

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

Years Ending September 30	
2022	\$ 1,781,172
2023	1,825,677
2024	1,871,348
2025	1,918,185
2026	1,966,188
2027 and beyond	9,467,517
Total minimum operating lease payments	\$ 18,830,087

Future minimum lease payments under the non-cancelable capital lease are as follows:

Years Ending September 30	
2022	\$ 1,164
2023	1,164
2024	1,164
2025	1,164
2026	97
2027 and beyond	-
Total minimum capital lease payments	\$ 4,753

10. RETIREMENT PLAN

The MSRB has a defined contribution retirement 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 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 \$1,250,071 and \$1,188,715 for the years ended September 30, 2021 and 2020, respectively.

All administrative expenses of the plan are paid by the MSRB. Administrative expenses total \$1,168 and \$1,964 for the years ended September 30, 2021 and 2020, 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 (IRC) 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 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 2018 to 2021, 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. AVAILABILITY OF RESOURCES AND LIQUIDITY

The following represents MSRB's financial assets at September 30, 2021 and 2020:

	2021	2020
Cash and cash equivalents	\$ 4,846,344	\$ 3,016,334
Investments	57,391,169	61,005,061
Accounts receivable - net	3,848,794	7,585,466
Accrued interest receivable	191,678	234,692
Total financial assets	66,277,985	71,841,553
Less amounts not available to be used within one year:		
Certificate of deposit held as collateral for lease letter of credit	139,375	133,963
Board designated net assets	14,842,395	11,152,080
	14,981,770	11,286,043
Financial assets available to meet general expenditures over the next twelve months	\$ 51,296,215	\$ 60,555,510

Organizational reserves are maintained to ensure the MSRB has appropriate resources to support mission objectives, respond to regulatory requirements and pursue opportunities, to enable the organization to be fiscally prepared regardless of economic conditions, to provide the MSRB with the requisite level of liquidity to fund ongoing operations, and to ensure the long-term financial sustainability of the organization. The MSRB determines the target for organizational reserves by conducting a detailed and comprehensive analysis of the liquidity needs in four categories: Working Capital, Risk Reserves, Strategic Investment Reserves and Regulatory Reserves.

Certain funding priorities exist based on MSRB's responsibilities as an SRO. These priorities include:

- *Market Regulation*, including rulemaking and compliance support, a professional qualifications regime, and providing enforcement support to other regulators;
- *Market Transparency and Technology*, including development, operation and maintenance of MSRB market transparency information systems, products and services, cybersecurity of these systems and key business operation activities;
- *Market Structure and Data*, including market research, economic analysis of proposed rulemaking, management of MSRB data with a strategic focus on data governance, quality and analytics and strategic development of market transparency products and services;
- *External Relations*, including outreach to municipal market participants and other stakeholders on regulatory, transparency and data initiatives or other emerging market issues; providing education on MSRB rules, transparency systems and other market topics; and serving as an expert resource to policymakers and others on the municipal market;
- *Governance and Leadership*, including continued activities of the Board of Directors, its committees and advisory groups as well as the activities of the Office of General Counsel; and
- *Finance, Risk and Administration*, including maintenance of a prudent level of liquid reserves, with consideration of reasonably foreseeable risks to revenues, expenditures and staffing-levels over a three-year time horizon.

As discussed in note 13, certain unrestricted net assets have been designated by the Board for specific strategic objectives. These assets are restricted to use by self-imposed limits by action of the Board and are not available for general expenditures. The Board designation can be changed by the Board and the net assets can be made available for general expenditures.

13. BOARD DESIGNATED NET ASSETS

In July 2020, the Board approved a \$10 million designation of fiscal year 2021 undesignated net assets to fund a multi-year strategic investment to modernize its market transparency systems to leverage the power of the cloud. In July 2021, the Board approved an additional \$7.5 million to increase this designation and provide sufficient funds to cover the planned spend of systems modernization initiatives.

In July 2018, the Board approved a \$5 million designation of fiscal year 2019 undesignated net assets for exploration of and the now approved transition to the cloud. In July 2019, the Board approved an additional \$3.5 million to increase the cloud designation to provide sufficient funds to cover the planned migration spend. Finally, in July 2021, the Board approved the return of the remaining unspent designated cloud fund to undesignated 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 information technology capital expenditures, such as the replacement or acquisition of computer hardware and software or development of software. Beginning January 2016, the Board no longer limited the technology fee to technology capital expenditures only. As of the year ended September 30, 2020, the remaining balance in the technology renewal fund has been fully depleted by information technology capital expenses.

	2021	2020
Designated, systems modernization fund — balance beginning of year	\$ 10,000,000	\$ —
Board designation	7,500,000	10,000,000
Systems modernization spend	(2,657,605)	—
Designated, systems modernization fund	14,842,395	10,000,000
Designated, cloud fund — balance beginning of year	1,152,080	5,780,651
Cloud migration spend	(548,629)	(4,628,571)
Undesignated cloud fund balances	(603,451)	—
Designated, cloud fund	—	1,152,080
Designated, technology renewal fund — balance beginning of year	—	85,370
Technology capital expenditures	—	(85,370)
Designated, technology renewal fund	—	—
Total Board designated net assets	\$ 14,842,395	\$ 11,152,080

14. DATA SUBSCRIPTION CONTRACT LIABILITIES

Data subscription contract liabilities relate to payments received in advance of the satisfaction of performance under the data subscription contract. We receive payments from data subscribers based upon the terms established in our contracts.

The following table provides information about significant changes in the data subscription contracts paid in advance at September 30, 2021 and 2020.

	2021	2020
Data subscription fees paid in advance, beginning of year	\$ 214,705	\$ 243,474
Revenue recognized that was included in data subscription contract liabilities at the beginning of the year	(214,705)	(243,474)
Increase in data subscription contract liabilities due to cash received during the period	214,700	214,705
Data subscription fees paid in advance, end of the year	\$ 214,700	214,705

15. SUBSEQUENT EVENTS

The MSRB evaluated its September 30, 2021 financial statements for subsequent events through December 17, 2021, 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.



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