

Financial Statements and Report of  
Independent Certified Public Accountants  
**Municipal Securities Rulemaking Board**  
September 30, 2007 and 2006

# Municipal Securities Rulemaking Board

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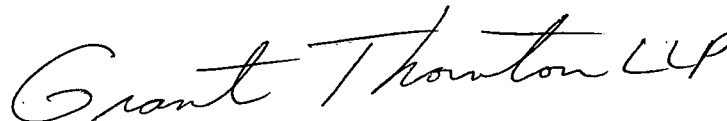
**Report of Independent Certified Public Accountants**

Audit Committee  
Municipal Securities Rulemaking Board

We have audited the accompanying statements of financial position of the Municipal Securities Rulemaking Board (the Board), as of September 30, 2007 and 2006, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Securities Rulemaking Board as of September 30, 2007 and 2006, and its changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



McLean, Virginia  
January 4, 2008

# Municipal Securities Rulemaking Board

## Statements of Financial Position

<i>September 30,</i>	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Cash	\$ 1,018,080	\$ 1,113,757
Accounts receivable, including unbilled receivables of \$508,570 and \$480,814, respectively	2,799,032	2,291,394
Other receivables	500,035	750,515
Accrued interest receivable	192,244	176,758
Other assets	101,820	99,373
Investments	20,270,259	17,606,032
Fixed assets, net	2,863,549	3,528,218
<b>Total Assets</b>	<b>\$ 27,745,019</b>	<b>\$ 25,566,047</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 1,037,057	\$ 642,913
Accrued vacation payable	289,371	293,300
Capital lease obligations	—	3,894
Deferred rent	1,968,025	1,902,625
Deferred compensation	—	1,135,562
<b>Total Liabilities</b>	<b>3,294,453</b>	<b>3,978,294</b>
<b>Net Assets—Unrestricted</b>	<b>24,450,566</b>	<b>21,587,753</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 27,745,019</b>	<b>\$ 25,566,047</b>

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

# Municipal Securities Rulemaking Board

## Statements of Activities and Changes in Net Assets

<i>Year ended September 30,</i>	<b>2007</b>	<b>2006</b>
<b>Revenue</b>		
Underwriting assessment fees	\$ 12,456,134	\$ 9,852,226
Transaction fees	6,893,813	6,198,630
Annual fees	663,300	684,800
Data subscriber fees	375,066	406,295
Initial fees	8,500	9,600
Other income	62,101	2,062
Investment return	1,008,422	601,322
Board manuals	7,758	14,005
<b>Total Revenue</b>	<b>21,475,094</b>	<b>17,768,940</b>
<b>Expenses</b>		
MSIL and RTRS operations	6,844,783	7,240,392
Administration and operations	5,648,682	4,619,281
Rulemaking and policy development	3,614,750	3,605,787
Board and committee	1,566,723	1,283,029
Professional qualifications	758,473	736,268
Education and communications	178,870	149,601
<b>Total Expenses</b>	<b>18,612,281</b>	<b>17,634,358</b>
<b>Change in Net Assets</b>	<b>2,862,813</b>	<b>134,582</b>
<b>Net Assets, beginning of year</b>	<b>21,587,753</b>	<b>21,453,171</b>
<b>Net Assets, end of year</b>	<b>\$ 24,450,566</b>	<b>\$ 21,587,753</b>

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

# Municipal Securities Rulemaking Board

## Statements of Cash Flows

<i>Year ended September 30,</i>	<b>2007</b>	<b>2006</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 2,862,813	\$ 134,582
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	1,161,650	1,310,106
Gain on disposal of fixed assets	2,088	(1,129)
Net amortization of investment discounts	(100,332)	(32,316)
Unrealized gains on investments	(226,421)	(61,417)
Changes in assets and liabilities:		
Accounts receivable	(507,638)	426,740
Other receivable	250,480	(750,515)
Accrued interest receivable	(15,486)	(76,201)
Other assets	(2,447)	20,777
Accounts payable	394,144	248,304
Accrued vacation payable	(3,929)	7,148
Deferred rent	65,400	137,424
Deferred compensation	(1,135,562)	564,397
<b>Net Cash Provided by Operating Activities</b>	<b>2,744,760</b>	<b>1,927,900</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of fixed assets	(499,069)	(132,843)
Proceeds from the sale of fixed assets	—	1,129
Purchases of investments	(10,858,975)	(11,076,072)
Maturities of investments	8,521,501	9,350,000
<b>Net Cash Used in Investing Activities</b>	<b>(2,836,543)</b>	<b>(1,857,786)</b>
<b>Cash Flows from Financing Activities</b>		
Payments on capital lease obligations	(3,894)	(4,971)
<b>Net Cash Used in Financing Activities</b>	<b>(3,894)</b>	<b>(4,971)</b>
<b>Net (Decrease) Increase in Cash</b>	<b>(95,677)</b>	<b>65,143</b>
<b>Cash, beginning of year</b>	<b>1,113,757</b>	<b>1,048,614</b>
<b>Cash, end of year</b>	<b>\$ 1,018,080</b>	<b>\$ 1,113,757</b>
<b>Supplemental Information</b>		
Interest paid	\$ 65	\$ 308

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

# Municipal Securities Rulemaking Board

Notes to Financial Statements

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*September 30, 2007 and 2006*

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## NOTE A—NATURE OF OPERATIONS

The Municipal Securities Rulemaking Board (the Board) was established in 1975 pursuant to authority granted by the Securities Exchange Act of 1934, as amended by the Securities Acts Amendments of 1975, as an independent, self-regulatory organization charged with rulemaking responsibility for the municipal securities industry. Effective May 17, 1989, the Board became incorporated as a tax-exempt, non-stock corporation in the Commonwealth of Virginia.

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## NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets, as well as liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Investments*

Investments are stated at fair value as determined by quoted market prices. Investments consist entirely of U.S. Treasury Notes. The U.S. Treasury Notes have various maturity dates through March 2010.

Investment return consists of interest income of \$782,001 and \$539,905 and unrealized gains of \$226,421 and \$61,417 for the years ended September 30, 2007 and 2006, respectively. Amortization and accretion of investment premiums and discounts are recorded as a component of unrealized gains and losses.

Other receivables in the accompanying statements of financial position includes \$500,000 due from the broker relating to fiscal 2007 investment transactions settled in October 2007.

### *Fixed Assets*

Furniture and fixtures, as well as office equipment, are recorded at cost and are depreciated using the straight-line method over five years and three years, respectively. 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. Internal-use computer software is recorded at cost and amortized over its estimated useful life.

# Municipal Securities Rulemaking Board

Notes to Financial Statements—Continued

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*September 30, 2007 and 2006*

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## NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

### *Capitalized Software Costs*

The Board capitalizes certain costs associated with computer software developed or obtained for internal use in accordance with the provisions of Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. The Board's policy provides for the capitalization of external direct costs of materials and services, and directly related payroll related costs. Costs associated with preliminary project stage activities, training, maintenance, and post implementation stage activities are expensed as incurred. Costs capitalized are amortized over a three- to five-year period on a straight-line basis.

### *Underwriting Assessment Fees*

The underwriting assessment fee is equal to a percentage of the face amount of all municipal securities, which are purchased from an issuer as part of a new issue. The fee charged is .001 percent or .003 percent of the par value of the offerings, as specified in Board Rule A-13. As described in this rule, certain transactions are exempt from underwriting fees.

Revenue from underwriting assessment fees is recognized when the underwriter files the offering statement with the Board.

### *Transaction Fees*

The transaction fee is one-half cent per \$1,000 par value of bonds and is levied on both customer and inter-dealer transactions as specified in Board Rule A-13. As described in this rule, certain transactions are exempt from this fee.

Transaction fee revenue is recognized as sales transactions are settled. Unbilled receivables consist of September transaction fees revenue billed in October.

### *Annual Fees*

With respect to each fiscal year of the Board in which a municipal securities broker or dealer conducts business, the broker or dealer is required to pay an annual fee of \$300. Revenue is recognized when brokers or dealers are billed annually.

### *Data Subscriber Fees*

The Board collects, stores, and provides access to information necessary for the municipal securities market. The Board operates three computer-based information systems: an electronic-document system for the collection, storage, and dissemination of official statements and advance-refunding documents (the OS/ARD system); a broadcast system for collection and dissemination of material events and notices from municipal securities issuers (the CDI system); and, the collection, processing, and dissemination of all municipal securities transactions for purposes of price transparency and surveillance (the RTRS system). Information in these systems is sold to subscribers on a subscription basis with quarterly billing in arrears. In addition, MSIL maintains files for public access of all Forms G-37, G-38, and other documents. Copying fees are levied at time of use for the reproduction of any documents.



# Municipal Securities Rulemaking Board

Notes to Financial Statements—Continued

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September 30, 2007 and 2006

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## NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

### *Initial Fees*

The initial fee is a one-time fee of \$100, which is to be paid by every municipal securities broker or dealer upon registration with the MSRB. Initial fees revenue is recognized when received.

### *Concentration of Credit Risk*

Financial instruments which potentially subject the Board to a concentration of credit risk consist principally of cash and accounts receivable. Cash balances at times are in excess of federally insured amounts and, as a result, subject the Board to a degree of credit risk. The Board's policy is to limit credit risk by depositing its funds with high quality financial institutions. Accounts receivable consist of fees due from municipal securities brokers and dealers. At times, there are certain significant balances due from individual municipal securities brokers and dealers.

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## NOTE C—FIXED ASSETS

Fixed assets consist of the following as of September 30:

	2007	2006
Leasehold improvements	\$ 1,261,125	\$ 1,251,524
Office equipment	1,477,046	1,406,511
Furniture and fixtures	1,407,007	1,396,339
Capitalized software costs	5,385,933	5,042,920
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	9,531,111	9,097,294
Less: accumulated depreciation and amortization	(6,667,562)	(5,569,076)
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	\$ 2,863,549	\$ 3,528,218

Office equipment includes assets acquired under capital leases of approximately \$-0- and \$19,000 at September 30, 2007 and 2006, respectively. The related accumulated depreciation for assets acquired under capital leases totaled approximately \$-0- and \$19,000 at September 30, 2007 and 2006, respectively.

# Municipal Securities Rulemaking Board

Notes to Financial Statements—Continued

*September 30, 2007 and 2006*

## NOTE D—COMMITMENTS

### *Operating Leases*

The Board leases office space and certain office equipment under operating and capital leases. In May 2001, the Board moved its headquarters from Washington, D.C. to new office space in Alexandria, Virginia, and entered into a lease which will expire in fiscal year 2016. The operating lease agreement for this office space contains provisions for future rent increases. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent which is included in the liabilities in the accompanying statements of financial position. The Board also leases office space in Manassas, Virginia for operations as provided in its emergency readiness plan. This lease expires in April 2008.

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

*Year ending September 30,*

2008	\$	1,617,082
2009		1,606,531
2010		1,623,344
2011		1,692,421
2012		1,771,344
Thereafter		6,693,612
Total minimum lease payments	\$	15,004,334

Total rent expense for office space and equipment for the years ended September 30, 2007 and 2006, was \$2,271,444 and \$2,211,772, respectively.

### *Employment Agreement*

As of September 30, 2005, the Board had an employment agreement with its Executive Director, based in major part on the employment agreement first agreed to by the parties on October 1, 1992, which provided, *inter alia*, for a specific term, salary, general employee benefits, and certain other benefits, including a supplemental retirement plan, life insurance, and others. A Supplemental Executive Retirement Plan (SERP), which was created in 1989, and has been part of the employment agreement since 1992, provides a benefit equal to 50 percent of the Executive Director's base pay, reduced by retirement contributions already provided by the Board under the existing retirement and supplemental plans, and estimated Social Security. Vesting would have occurred if the Executive Director's employment had terminated at or after age 60 and in certain other limited circumstances.

# Municipal Securities Rulemaking Board

Notes to Financial Statements—Continued

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*September 30, 2007 and 2006*

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## NOTE D—COMMITMENTS—Continued

### *Employment Agreement—Continued*

On May 12, 2005, a new contract was entered into by the parties with a term ending on September 30, 2007. Incorporated into the new contract, the SERP benefit, which the parties agreed to fix at \$1,561,394, is payable at the end of term of the new contract subject to the terms thereof. In addition, according to the new contract, the Executive Director is to receive additional deferred compensation (457(f) contribution). The Board has established a Rabbi Trust for this purpose and has made contributions of \$50,700 per annum for the three-year contract term. The aggregate amount held in the Rabbi Trust, including earnings or losses was paid in July 2007, at the same time the SERP payment was paid to the Executive Director. Also at that time, the Board incurred certain liabilities with respect to severance totaling \$547,052 for short-term obligations and \$75,881 for long-term obligations.

An employment agreement (dated May 25, 2007) was entered into by the Board and its new Executive Director with term ending May 31, 2010. According to the agreement, the Executive Director is to receive deferred compensation (457(f) contribution) of \$35,000 per annum for the three year term beginning in March 2008.

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## NOTE E—RETIREMENT PLAN

The Board has a defined contribution pension plan for all employees. Participation commences upon completion of one month of eligible service as described in the plan document. For all active participants employed on the first day of the calendar quarter, the Board makes a quarterly contribution as required by the plan document. These contributions are based on the participants' quarterly compensation for the calendar quarter immediately proceeding the first day of the calendar quarter. The contribution percentage ranges from 9 percent to 12 percent depending on the length of vested service as scheduled in the plan document. Each employee is fully vested upon being credited with five plan years of service. Employees may also make voluntary contributions to the plan. The Board made contributions to the plan totaling \$589,632 and \$576,129 for the years ended September 30, 2007 and 2006, respectively.

All administrative expenses of the plan are paid by the Board. Administrative expenses totaled \$18,912 and \$13,149 for the years ended September 30, 2007 and 2006, respectively.

In addition, the Board has entered into separate agreements with two employees to provide supplemental benefits in excess of Internal Revenue Service limitations. Payments made by the Board in accordance with these agreements totaled \$86,370 and \$83,625 for the years September 30, 2007 and 2006, respectively.

# Municipal Securities Rulemaking Board

Notes to Financial Statements—Continued

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*September 30, 2007 and 2006*

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## NOTE F—INCOME TAXES

The Board is exempt from 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. No provision for income taxes has been made as of September 30, 2007 and 2006, since the Board believes that there is no unrelated business income.

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## NOTE G—BOARD DESIGNATED NET ASSETS

By policy, the Board generally maintains sufficient cash and liquid investments to cover cash outlays for six to twelve months. Unrestricted net assets are designated for future capital projects, including technology systems, and to fund reserves for operating expenses.

