

# Municipal Securities Rulemaking Board

Financial Statements as of and for the  
Years Ended September 30, 2013 and 2012, and  
Report of Independent Certified Public Accountants

# MUNICIPAL SECURITIES RULEMAKING BOARD

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## **INDEPENDENT AUDITORS' REPORT**

To the Audit Committee of the Municipal Securities Rulemaking Board  
1900 Duke Street  
Alexandria, VA 22314

We have audited the accompanying financial statements of the Municipal Securities Rulemaking Board ("MSRB"), which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Securities Rulemaking Board as of September 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

December 12, 2013

# MUNICIPAL SECURITIES RULEMAKING BOARD

## STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2013 AND 2012

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	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,113,448	\$ 2,685,687
Investments	43,343,762	32,461,736
Accounts receivable — net	6,208,115	8,063,300
Prepaid and other assets	584,622	393,609
Accrued interest receivable	80,309	24,505
Fixed assets — net of accumulated depreciation and amortization of \$23,264,411 and \$20,153,777 in 2013 and 2012, respectively	<u>6,482,933</u>	<u>6,412,406</u>
<b>TOTAL</b>	<u>\$ 60,813,189</u>	<u>\$ 50,041,243</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued liabilities	\$ 1,149,366	\$ 1,526,331
Accrued vacation payable	577,950	555,105
Deferred rent	1,070,070	1,387,313
Deferred compensation	<u>136,579</u>	<u>177,932</u>
Total liabilities	<u>2,933,965</u>	<u>3,646,681</u>
Undesignated net assets	44,477,138	38,872,594
Designated technology renewal fund	12,152,086	7,521,968
Designated facility fund	1,250,000	-
Net assets — unrestricted	<u>57,879,224</u>	<u>46,394,562</u>
<b>TOTAL</b>	<u>\$ 60,813,189</u>	<u>\$ 50,041,243</u>

See notes to financial statements.

# MUNICIPAL SECURITIES RULEMAKING BOARD

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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	2013	2012
<b>REVENUE:</b>		
Underwriting assessment fees	\$ 11,772,429	\$ 12,812,254
Transaction fees	14,012,929	13,667,607
Technology fees	8,042,898	7,681,655
Rule violation fine revenue	2,364,098	2,771,735
Data subscriber fees	1,596,614	1,481,011
Annual and initial fees	1,239,300	1,284,408
Other Income	<u>234,724</u>	<u>193,668</u>
<b>Total Revenue</b>	<u>39,262,992</u>	<u>39,892,338</u>
<b>EXPENSES:</b>		
Rulemaking and policy development	4,802,688	4,300,618
Board governance and rulemaking oversight	1,651,295	1,850,433
Market information transparency programs and operations	13,947,500	13,765,617
Market leadership, outreach, and education	2,046,100	1,619,691
Administration	<u>5,330,747</u>	<u>5,300,353</u>
<b>Total Expenses</b>	<u>27,778,330</u>	<u>26,836,712</u>
<b>CHANGE IN NET ASSETS</b>	11,484,662	13,055,626
<b>NET ASSETS — Beginning of year</b>	<u>46,394,562</u>	<u>33,338,936</u>
<b>NET ASSETS — End of year</b>	<u>\$ 57,879,224</u>	<u>\$ 46,394,562</u>

See notes to financial statements.

# MUNICIPAL SECURITIES RULEMAKING BOARD

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 11,484,662	\$ 13,055,626
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,419,279	4,343,818
Impairment of long-lived assets	-	32,158
Net amortization of investment premiums (discounts)	205,360	(9,523)
Unrealized loss on investments	7,367	325
Bad debt expense	-	52,111
Changes in assets and liabilities:		
Accounts receivable	1,855,185	(1,867,786)
Prepaid and other assets	(191,013)	47,004
Accrued interest receivable	(55,804)	(24,505)
Accounts payable and accrued liabilities	(376,965)	465,913
Accrued vacation payable	22,845	5,317
Deferred rent	(317,243)	(255,270)
Deferred compensation	(41,353)	118,248
	<u>16,012,320</u>	<u>15,963,436</u>
<b>Net cash provided by operating activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	(3,489,806)	(3,077,524)
Purchases of investments	(42,889,407)	(33,402,188)
Maturities of investments	31,794,654	20,270,000
	<u>(14,584,559)</u>	<u>(16,209,712)</u>
<b>Net cash used in investing activities</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,427,761	(246,276)
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<u>2,685,687</u>	<u>2,931,963</u>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<u>\$ 4,113,448</u>	<u>\$ 2,685,687</u>

See notes to financial statements.

# MUNICIPAL SECURITIES RULEMAKING BOARD

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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### 1. NATURE OF OPERATIONS

The Municipal Securities Rulemaking Board (MSRB) was established in 1975 pursuant to authority granted by the Securities Exchange Act of 1934, as amended by the Securities Acts Amendments of 1975 and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) of 2010, and is incorporated as a not-for-profit, non-stock corporation in the Commonwealth of Virginia. The MSRB is an independent, self-regulatory organization charged with protecting investors, municipal entities, obligated persons, and the public interest by promoting a fair and efficient municipal securities market through rulemaking on the municipal securities activities of broker-dealers and banks (municipal securities dealers) and municipal advisory activities of municipal advisors (municipal securities dealers and municipal advisors are hereafter referred to as regulated entities). The MSRB also collects and disseminates market information, and operates the Electronic Municipal Market Access (EMMA<sup>®</sup>) website to promote transparency and widespread access to information, and engages in significant education, outreach and market leadership activities.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Fair Value Measurement** — The MSRB adopted the provisions of FASB ASC 820, *Fair Value Measurement*, in fiscal year 2012 which provides a common definition of fair value for GAAP and International Financial Reporting Standards (IFRS), establishes a framework for measuring fair value, provides a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements.

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

Included in cash equivalents are short term money market mutual funds fully invested in securities backed by the full faith and credit of the United States Government or its fully guaranteed agencies with a total fair market value at September 30, 2013 of \$3,028,000. As per the fair value hierarchy discussed in Note 4, Fair Value Measurements, the MSRB considers the investments in short term money market mutual funds as Level 1 inputs.

**Investments** — Investments are stated at fair value. Investments consist of United States (U.S.) Treasury notes, government-guaranteed agency securities, certificates of deposit that are FDIC insured and in 2012, a 457(f) Rabbi Trust that is comprised entirely of mutual funds.

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

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

**Concentration of Credit Risk** — Financial instruments that potentially subject the MSRB to a concentration of credit risk consist principally of cash, cash equivalents, accounts receivable and investments. The MSRB maintains cash primarily in non-interest-bearing accounts with FDIC insurance up to \$250,000. MSRB investments are backed by the full faith and credit of the United States Government or its fully guaranteed agencies. Accounts receivable consist of fees due from municipal securities brokers and dealers, municipal advisors 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. Four regulated entities accounted for 35% and 31% of total revenues in fiscal year 2013 and fiscal year 2012, respectively.

**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** — Furniture and fixtures, as well as computer and 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. Improvements and replacements of fixed assets are capitalized. Maintenance and repairs that do not improve or extend the lives of fixed assets are charged to expense as incurred.

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

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

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

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



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

**Grants** — Unconditional grant sponsorships are recorded as an expense in the year they are committed.

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

### **Revenue Recognition:**

*Underwriting Assessment Fees* — The underwriting assessment fee on municipal securities dealers acting as underwriters is equal to \$0.03 per \$1,000 of the face amount of municipal securities purchased by underwriters from an issuer as part of a new issue. Currently, commercial paper and municipal fund securities are exempt from the assessment.

Revenue from underwriting assessment fees is recognized in the month the underwriter files the offering document with the MSRB.

*Transaction Fees* — The transaction fee on municipal securities dealers is \$0.01 per \$1,000 par value of bonds sold and is levied on both customer and interdealer transactions as specified in Rule A-13. As described in this rule, certain transactions are exempt from this fee.

Transaction fee revenue is recognized as sales transactions are settled.

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

Technology fee revenue is recognized as sales transactions are settled.

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

*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 \$500 per Rule A-14. Revenue is recognized when regulated entities are billed annually in October, or when received upon initial registration with the MSRB to conduct business. The initial fee is a onetime fee of \$100, 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.

*Data Subscriber Fees* — The MSRB collects, stores, and provides access to information pertaining to the municipal securities market. The MSRB operates four computer-based information systems that offer data subscription service for a fee: an electronic document and data system for the collection, processing, storage, and dissemination of official statements, advance refunding documents, and related

data (the EMMA<sup>®</sup> Primary Market Disclosure System); an electronic document and data system for the collection, processing, storage, and dissemination of continuing disclosure documents and related data from municipal securities issuers, obligated persons, and their agents (the EMMA<sup>®</sup> Continuing Disclosure System); an electronic data system for the collection, processing, storage, and dissemination of data on all municipal securities transactions for purposes of price transparency and surveillance (the Real Time Transaction Reporting System); and an electronic document and data system for the collection, processing, storage, and dissemination of data on short-term obligation rate reset data and related documents (the Short-term Obligation Rate Transparency System). Information processed by these systems on a current basis is sold to subscribers on an annual basis, with the annual subscription fee billed on a quarterly basis and revenue recognized as billed. In addition, the MSRB sells annual historical collections of information from these systems, with the fee billed and recognized at the time of purchase.

*Professional Qualification Examination Fees* — Rule A-16 established an examination fee of \$60 assessed on persons taking certain qualification examinations. These examinations include the Series 51 (Municipal Fund Securities Limited Principal Qualification Examination), Series 52 (Municipal Securities Representative Qualification Examination), and Series 53 (Municipal Securities Principal Qualification Examination). Professional qualification examination fees are recognized in the month the exams are given and for the years ended September 30, 2013 and 2012, totaled \$122,820 and \$141,840, respectively, and included in other income in the accompanying statements of activities and changes in net assets.

### 3. INVESTMENTS

Investments as of September 30, 2013 and 2012, consist of the following:

	<b>2013</b>	<b>2012</b>
U.S. Treasury notes	\$ 18,076,299	\$ 9,917,692
Government-guaranteed agency securities	21,326,978	22,474,722
Certificates of Deposit	3,940,485	-
Mutual funds	<u>-</u>	<u>69,322</u>
	<u>\$43,343,762</u>	<u>\$32,461,736</u>

Investment return for the years ended September 30, 2013 and 2012, consists of the following:

	<b>2013</b>	<b>2012</b>
Interest and dividends	\$ 104,621	\$ 41,352
Unrealized losses	<u>(7,367)</u>	<u>(325)</u>
	<u>\$ 97,254</u>	<u>\$ 41,027</u>

### 4. FAIR VALUE MEASUREMENTS

The carrying amounts of financial instruments, including cash, receivables, accounts payable, and accrued expenses approximate fair value as of September 30, 2013 and 2012, because of the relatively short duration of these instruments.

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

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

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

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

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

The MSRB's Level 1 investments include mutual funds.

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

The MSRB bases the fair value on pricing obtained from the MSRB's investment broker. The MSRB does not adjust for or apply any additional assumptions or estimates to the pricing information it receives from its broker. The broker's 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, 2013 and 2012, based on the following levels of hierarchy:

<b>2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Treasury Notes	\$ -	\$ 18,076,299	\$ -	\$ 18,076,299
Government-guaranteed agency securities	-	21,326,978	-	21,326,978
Certificates of Deposit	-	3,940,485	-	3,940,485
	<u>\$ -</u>	<u>\$ 43,343,762</u>	<u>\$ -</u>	<u>\$ 43,343,762</u>

<b>2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Treasury Notes	\$ -	\$ 9,917,692	\$ -	\$ 9,917,692
Government-guaranteed agency securities	-	22,474,722	-	22,474,722
Mutual funds	<u>69,322</u>	<u>-</u>	<u>-</u>	<u>69,322</u>
	<u>\$ 69,322</u>	<u>\$32,392,414</u>	<u>\$ -</u>	<u>\$32,461,736</u>

## 5. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2013 and 2012, consist of the following:

	<b>2013</b>	<b>2012</b>
Billed accounts receivable	\$ 4,033,048	\$4,542,194
Unbilled accounts receivable	<u>2,296,982</u>	<u>3,826,760</u>
	6,330,030	8,368,954
Less allowance for doubtful accounts	<u>(121,915)</u>	<u>(305,654)</u>
	<u>\$ 6,208,115</u>	<u>\$8,063,300</u>

Unbilled receivables consist primarily of September transaction and technology fees revenue billed in October. Unbilled receivable balances, in addition to the transaction and technology fees, include \$0.3million and \$1.9 million of rule violation fine revenue in 2013 and 2012, respectively.

## 6. PREPAID AND OTHER ASSETS

Prepaid and other assets as of September 30, 2013 and 2012, consist of the following:

	<b>2013</b>	<b>2012</b>
Prepaid assets	\$ 449,567	\$ 381,251
457(f) Rabbi Trust receivable	105,000	-
Deposits and other receivables	<u>30,055</u>	<u>12,358</u>
	<u>\$ 584,622</u>	<u>\$ 393,609</u>

## 7. FIXED ASSETS

Fixed assets as of September 30, 2013 and 2012, consist of the following:

	<b>2013</b>	<b>2012</b>
Leasehold improvements	\$ 1,874,816	\$ 1,845,584
Computer and office equipment	3,023,837	2,445,996
Furniture and fixtures	1,657,808	1,625,375
Capitalized software costs	<u>23,190,883</u>	<u>20,649,228</u>
	<u>29,747,344</u>	<u>26,566,183</u>
Less accumulated depreciation and amortization:		
Leasehold improvements	(1,292,544)	(1,066,953)
Computer and office equipment	(2,012,474)	(1,802,950)
Furniture and fixtures	(1,449,322)	(1,383,305)
Capitalized software costs	<u>(18,510,071)</u>	<u>(15,900,569)</u>
	<u>(23,264,411)</u>	<u>(20,153,777)</u>
	<u>\$ 6,482,933</u>	<u>\$ 6,412,406</u>

Depreciation and amortization expense during fiscal years 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Depreciation expense	\$ 565,876	\$ 570,681
Amortization expense for capitalized software cost and leasehold improvements	<u>2,853,403</u>	<u>3,773,137</u>
	<u>\$3,419,279</u>	<u>\$4,343,818</u>

**Impairment of long-lived assets** — Through regular review of long-lived assets, in fiscal year 2013 no impairment loss was recognized and in 2012 an estimated impairment loss of \$32,158 was recognized.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of September 30, 2013 and 2012, consist of the following:

	<b>2013</b>	<b>2012</b>
Accounts payable	\$ 381,467	\$ 797,242
Salaries, taxes, and benefits payable	304,443	388,433
Other accrued expenses	<u>463,456</u>	<u>340,656</u>
	<u>\$1,149,366</u>	<u>\$1,526,331</u>

As of September 30, 2013, an unconditional grant sponsorship payable of \$100,000 is included in other accrued expenses, with \$50,000 payable annually in 2014 and 2015.

## 9. COMMITMENTS

**Operating Leases** — The MSRB leases office space under operating lease arrangements. In May 2001, the MSRB entered into a lease for office space in Alexandria, Virginia, 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 a straight-line basis 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.

Total rent expense for the Alexandria, Virginia office space and office equipment for the years ended September 30, 2013 and 2012, was \$2,143,627 and \$2,164,988, respectively.

The MSRB has extended two lease agreements for web site hosting, business continuity and disaster recovery. Total lease payments under these operating leases for the years ended September 30, 2013 and 2012, were \$301,943 and \$308,113, respectively.

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

### Years Ending September 30

2014	\$2,233,892
2015	2,289,300
2016	1,291,764
2017	<u>57,000</u>
Total minimum lease payments	<u>\$5,871,956</u>

**Employment Agreements** — In accordance with the executive director's employment agreement, a 457(f) deferred compensation plan is maintained and annual contributions as defined by the agreement are made. Contributions and the related earnings and interest vest at the end of each three year contract. In 2012, the organization maintained a mutual fund where the contributions were invested; this account was reflected as a component of MSRB's investments. In 2013, the related asset is included in Prepaid and other assets as funds were invested post September 30, 2013. As of September 30, 2013 and 2012, the MSRB has recorded a deferred compensation liability related to the 457(f) plan of \$105,000 and \$177,932, respectively.

## 10. RETIREMENT PLAN

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

Each employee is fully vested upon being credited with three plan years of service. Employees may also make voluntary contributions to the plan. The MSRB made contributions to the plan totaling \$766,852 and \$695,954 for the years ended September 30, 2013 and 2012, respectively.

All administrative expenses of the plan are paid by the MSRB. Administrative expenses total \$12,558 and \$12,490 for the years ended September 30, 2013 and 2012, respectively.

## 11. INCOME TAXES

The MSRB is exempt from federal and state taxes on income (other than unrelated business income) under Section 501(c)(6) of the Internal Revenue Code and applicable income tax regulations of the Commonwealth of Virginia. The MSRB files an annual informational tax form, Form 990, with the Internal Revenue Service. The MSRB realized no unrelated business income in fiscal years 2013 and 2012 and no provision for income taxes has been made as of September 30, 2013 and 2012.

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 2010 to 2013, which represent the years management considers to be open for examination by taxing authorities, management did not identify the existence of any uncertain tax position.

## 12. BOARD-DESIGNATED NET ASSETS

With the establishment of the technology fee in January 1, 2011, a board-designated technology renewal fund was established to provide funds for capital expenditures, such as the replacement or acquisition of computer hardware and software. The technology renewal fund is credited with all revenue derived from the technology fee and depleted by information technology capital expenses.

During 2013, a board-designated facility fund was established to help fund the move of the data center to a full-scale hosted data facility and future expenses associated with an office move or renovation following the MSRB operating lease expiration in 2016.

	<b>2013</b>	<b>2012</b>
Balance - Beginning of year	\$ 7,521,968	\$ 2,836,295
Technology fees	8,042,898	7,681,655
Technology capital expenditures	<u>(3,412,780)</u>	<u>(2,995,982)</u>
Designated technology renewal fund	<u>12,152,086</u>	<u>7,521,968</u>
Designated facility fund	<u>1,250,000</u>	<u>-</u>
Total Board-Designated Funds	<u>\$ 13,402,086</u>	<u>\$ 7,521,968</u>

## 13. SUBSEQUENT EVENTS

The MSRB evaluated its September 30, 2013, financial statements for subsequent events through December 12, 2013, 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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