



Municipal Securities Rulemaking Board

**Financial Statements as of and for the  
Years Ended September 30, 2015 and 2014,  
and Report of Independent Certified Public  
Accountants**



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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, 2015 and 2014, 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, 2015 and 2014, 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.

A handwritten signature in dark blue ink that reads "Deloitte &amp; Touche LLP". The signature is written in a cursive, professional style.

December 10, 2015

## FINANCIAL STATEMENTS

## STATEMENTS OF FINANCIAL POSITION

<i>As of September 30, 2015 and 2014</i>	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$1,381,014	\$2,016,459
Investments	57,926,260	49,765,338
Accounts receivable — net	5,580,869	5,077,370
Prepaid and other assets	1,740,081	812,673
Accrued interest receivable	234,159	146,034
Fixed assets — net of accumulated depreciation and amortization of \$29,605,072 and \$26,256,200 in 2015 and 2014, respectively	7,967,085	6,802,507
<b>TOTAL</b>	<b>\$74,829,468</b>	<b>\$64,620,381</b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued liabilities	\$1,655,294	\$2,449,901
Accrued vacation payable	682,386	607,274
Deferred compensation	329,607	220,286
Deferred revenue	273,419	265,252
Deferred rent	2,373,768	688,643
Total liabilities	5,314,474	4,231,356
Undesignated net assets	52,291,847	46,710,241
Designated technology renewal fund	16,515,496	12,119,081
Designated facility fund	707,651	1,559,703
Net assets — unrestricted	69,514,994	60,389,025
<b>TOTAL</b>	<b>\$74,829,468</b>	<b>\$64,620,381</b>

See notes to financial statements.

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

<i>For the years ended September 30, 2015 and 2014</i>	2015	2014
<b>REVENUE:</b>		
Underwriting assessment fees	\$12,990,546	\$9,980,079
Transaction fees	13,313,660	12,875,066
Technology fees, net of firm rebates of \$3.6 million in 2014	7,268,324	3,698,922
Data subscriber fees	1,817,702	1,852,127
Municipal advisor professional fees	1,336,168	968,700
Annual and initial fees	1,142,114	1,232,112
Rule violation fine revenue	2,652,316	709,523
Other income	806,746	675,797
<b>Total Revenue</b>	<b>41,327,576</b>	<b>31,992,326</b>
<b>EXPENSES:</b>		
Rulemaking and policy development	6,847,256	5,907,037
Board governance	1,770,521	1,739,635
Market information transparency programs and operations	15,557,898	14,099,860
Market leadership, outreach and education	2,462,542	2,195,192
Administration	5,563,390	5,540,801
<b>Total Expenses</b>	<b>32,201,607</b>	<b>29,482,525</b>
<b>CHANGE IN NET ASSETS</b>	<b>9,125,969</b>	<b>2,509,801</b>
<b>NET ASSETS — Beginning of year</b>	<b>60,389,025</b>	<b>57,879,224</b>
<b>NET ASSETS — End of year</b>	<b>\$69,514,994</b>	<b>\$60,389,025</b>

See notes to financial statements.

## STATEMENTS OF CASH FLOWS

<i>For the years ended September 30, 2015 and 2014</i>	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$9,125,969	\$2,509,801
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,453,616	3,388,840
Impairment of long-lived assets	91,420	–
Net amortization of investment premiums	196,632	317,638
Unrealized gain on investments	(127,879)	(3,777)
Bad debt expense	12,610	2,007
Net gain on sale and disposal of fixed assets	–	(4,937)
Changes in assets and liabilities:		
Accounts receivable	(516,109)	1,128,738
Prepaid and other assets	(927,408)	(228,051)
Accrued interest receivable	(88,126)	(65,725)
Accounts payable and accrued liabilities	(794,606)	1,300,535
Accrued vacation payable	75,112	29,324
Deferred compensation	109,321	83,707
Deferred revenue	8,167	265,252
Deferred rent	1,685,125	(381,427)
<b>Net cash provided by operating activities</b>	<b>12,303,844</b>	<b>8,341,925</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales of fixed assets	–	35,000
Purchases of fixed assets	(4,709,614)	(3,738,477)
Purchases of investments	(24,908,675)	(40,735,437)
Maturities of investments	16,679,000	34,000,000
<b>Net cash used in investing activities</b>	<b>(12,939,289)</b>	<b>(10,438,914)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(635,445)</b>	<b>(2,096,989)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b>2,016,459</b>	<b>4,113,448</b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b>\$1,381,014</b>	<b>\$2,016,459</b>

See notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

## AS OF AND FOR THE YEARS ENDED September 30, 2015 AND 2014

### 1. NATURE OF OPERATIONS

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Included in cash equivalents are short term money market mutual funds fully invested in securities backed by the full faith and credit of the United States Government with a total fair market value of \$667,337 and \$1,758,061 at September 30, 2015 and 2014, respectively. As per the fair value hierarchy discussed in Note 4, Fair Value Measurements, the MSRB considers the investments in short term money market mutual funds as Level 1 inputs.

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

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

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

**Concentration of Credit Risk** — Financial instruments that potentially subject the MSRB to a concentration of credit risk consist principally of cash, cash equivalents, accounts receivable and investments. The MSRB maintains cash primarily in non-interest-bearing accounts with FDIC insurance up to \$250,000. MSRB investments are backed by the full faith and credit of the United States Government or its fully guaranteed agencies. Accounts receivable consist of fees due from regulated entities and data subscribers. At times, there are certain significant

balances due from regulated entities but the MSRB does not believe it is exposed to any significant credit risk on these balances. Five regulated entities accounted for approximately one-third of total revenues in fiscal year 2015 and fiscal year 2014.

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

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

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

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

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

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

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

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

**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 benefitted.

**Reciprocal Transactions** — The MSRB receives municipal credit rating 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 \$98,250 and \$86,000 for the years ended September 30, 2015 and September 30, 2014, respectively.

#### **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 par value 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 customer and interdealer sales transactions. As further described in Note 12, the MSRB Board has designated the use of the funds generated by these fees to update, maintain and replace its technology systems.

Technology fee revenue is recognized as sales transactions are settled. In fiscal year 2014, technology fee revenue is disclosed net of the discretionary technology fee rebate of \$3.6 million distributed to municipal securities dealers active as of June 30, 2014 equal to the technology fees assessed on trades during the six months ended June 2014.

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

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

*Annual and Initial Fees* — With respect to each fiscal year of the MSRB in which a regulated entity conducts business, the regulated entity is required to pay an annual fee of \$500 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 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.

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

*Professional Qualification Examination Fees* — Rule A-16 establishes the examination fee on persons taking certain qualification examinations. The fee of \$60 was increased to \$150 on April 1, 2015. 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, 2015 and 2014, totaled \$226,410 and \$127,380, respectively, and are included in other income in the accompanying statements of activities and changes in net assets.

### 3. INVESTMENTS

Investments as of September 30, 2015 and 2014, consist of the following:

	2015	2014
U.S. treasury notes	\$14,172,782	\$15,137,885
Government-guaranteed agency securities	34,170,463	28,310,238
Certificates of deposit	9,368,843	6,097,878
Mutual funds	214,172	219,337
	\$57,926,260	\$49,765,338

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

Investment return for the years ended September 30, 2015 and 2014 is included in other income in the accompanying Statements of Activities and Changes in Net Assets and consists of the following:

	2015	2014
Interest and dividends	\$390,556	\$215,387
Unrealized gains	127,879	3,777
	\$518,435	\$219,164

#### 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, 2015 and 2014 because of the relatively short duration of these instruments.

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

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

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

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

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

The MSRB's Level 1 investments include mutual funds.

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

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

Investments were recorded at fair value as of September 30, 2015 and 2014, based on the following levels of hierarchy:

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

2014	Level 1	Level 2	Level 3	Total
U.S. treasury notes	\$ —	\$15,137,885	\$ —	\$15,137,885
Government-guaranteed agency securities	—	28,310,238	—	28,310,238
Certificates of deposit		6,097,878		6,097,878
Mutual funds	219,337		—	219,337
	\$219,337	\$49,546,001	\$ —	\$49,765,338

## 5. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2015 and 2014 consist of the following:

	2015	2014
Billed accounts receivable	\$3,747,176	\$2,552,556
Unbilled accounts receivable	1,912,752	2,590,339
	5,659,928	5,142,895
Less allowance for doubtful accounts	(79,059)	(65,525)
	<u>\$5,580,869</u>	<u>\$5,077,370</u>

Unbilled receivables at September 30, 2015 and 2014 consist primarily of September transaction and technology fees revenue billed in early October. Additionally, FY 2014 unbilled receivables include municipal advisor professional fees outstanding as of September 30, 2014.

## 6. PREPAID AND OTHER ASSETS

Prepaid and other assets as of September 30, 2015 and 2014 consist of the following:

	2015	2014
Prepaid assets	\$877,649	\$781,600
Deposits	862,432	31,073
	<u>\$1,740,081</u>	<u>\$812,673</u>

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

## 7. FIXED ASSETS

Fixed assets as of September 30, 2015 and 2014 consist of the following:

	2015	2014
Capitalized software costs	\$27,799,951	\$25,510,630
Computer and office equipment	4,409,072	4,008,903
Leasehold improvements	3,709,586	1,874,816
Furniture and fixtures	1,653,548	1,664,358
	<u>37,572,157</u>	<u>33,058,707</u>
Less accumulated depreciation and amortization:		
Capitalized software costs	(23,413,043)	(20,960,645)
Computer and office equipment	(2,742,126)	(2,229,041)
Leasehold improvements	(1,823,857)	(1,525,221)
Furniture and fixtures	(1,626,046)	(1,541,293)
	<u>(29,605,072)</u>	<u>(26,256,200)</u>
	<u>\$7,967,085</u>	<u>\$6,802,507</u>

Depreciation expense and amortization expense during fiscal years 2015 and 2014 are as follows:

	2015	2014
Depreciation expense	\$738,893	\$560,570
Amortization expense for capitalized software cost and leasehold improvements	2,714,723	2,828,270
	<u>\$3,453,616</u>	<u>\$3,388,840</u>

**Impairment of long-lived assets** — Through regular review of long-lived assets, in fiscal year 2015 an estimated impairment loss of \$91,420 was recognized related to assets, primarily leasehold improvements, which will not have value or be used after the office relocation to Washington, DC in December 2015. The net book value of such assets was adjusted based on the remaining useful life. In fiscal year 2014 no impairment loss was recognized.

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

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of September 30, 2015 and 2014 consist of the following:

	2015	2014
Accounts payable	\$580,024	\$687,706
Salaries, taxes and benefits payable	793,586	662,981
Technology fee rebate and other amounts due to registrants	27,532	766,098
Other accrued expenses	254,152	333,116
	<u>\$1,655,294</u>	<u>\$2,449,901</u>

## 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 March 31, 2016. 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 liabilities in the accompanying statements of financial position. The MSRB expects to move to new leased office space in Washington, DC in December 2015 and began constructing leasehold improvements for such space in July 2015. MSRB will continue to make rent payments on the Alexandria lease until the lease expires.

Total rent expense for the Alexandria, Virginia office space and office equipment for the years ended September 30, 2015 and 2014, was \$2,309,200 and \$2,273,992, respectively.

The MSRB determined to move its office at the expiration of the Alexandria, Virginia lease and in September 2014, entered into a lease for office space in Washington, DC which will expire in fiscal year 2031. Total rent expense for the Washington, DC office space for the years ended September 30, 2015 and 2014 was \$415,794 and \$0, respectively.

The MSRB has three lease agreements for website hosting, business continuity and disaster recovery. Total lease payments under these operating leases for the years ended September 30, 2015 and 2014 facilities, were \$515,890 and \$318,365, respectively.

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

<b>Years Ending September 30</b>	
2016	1,425,164
2017	766,800
2018	1,807,327
2019	1,831,610
2020	1,695,466
2021 and beyond	20,567,920
Total minimum lease payments	<u>\$28,094,287</u>

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

**Employment Agreements** — In accordance with the executive director's employment agreement, a 457(f) deferred compensation plan is maintained and annual contributions as defined by the agreement are made. Contributions and the related earnings and interest vest at the end of each contract. As of September 30, 2015 and 2014, the MSRB has recorded a deferred compensation liability related to the 457(f) plan of \$317,107 and \$220,286, 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. 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 \$917,015 and \$804,812 for the years ended September 30, 2015 and 2014, respectively.

All administrative expenses of the plan are paid by the MSRB. Administrative expenses total \$11,279 and \$12,093 for the years ended September 30, 2015 and 2014, 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 2015 and 2014 and no provision for income taxes has been made as of September 30, 2015 and 2014.

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 2012 to 2015, which represent the years management considers to be open for examination by taxing authorities, management did not identify the existence of any uncertain tax position.

## 12. BOARD DESIGNATED NET ASSETS

With the establishment of the technology fee on January 1, 2011, a board designated technology renewal fund was 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 fiscal year 2013, a \$1.25 million board designated facility fund was established to help fund the move of the data center and future expenses associated with an office move or renovation following the MSRB operating lease expiration on March 31, 2016. In fiscal year 2014, the MSRB received \$0.3 million of the real estate commission on the new Washington, DC office lease, and the revenue is included in Other income. Such revenue was designated by the MSRB Board of Directors for the facility fund. In fiscal year 2015, \$852,052 of the facility fund was spent on office move related expenses.

	2015	2014
Designated technology renewal fund —		
Balance beginning of year	\$12,119,081	\$12,152,086
Technology fees, net of firm rebates of \$3.6 million in 2014	7,268,324	3,698,922
Technology capital expenditures	(2,871,909)	(3,731,927)
Designated technology renewal fund	16,515,496	12,119,081
Designated facility fund	707,651	1,559,703
Total Board designated funds	\$17,223,147	\$13,678,784

## 13. SUBSEQUENT EVENTS

The MSRB evaluated its September 30, 2015, financial statements for subsequent events through December 10, 2015, 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 except as disclosed below.

The SEC approved amendments to Rule A-12 effective October 1, 2015 whereby the MSRB's annual fee increases from \$500 to \$1,000 and the initial fee increases from \$100 to \$1,000. The SEC also approved an amendment to Rule A-13 effective January 1, 2016, decreasing the MSRB's underwriting assessment fee from \$.03 to \$.0275 per \$1,000 of par value. In addition, effective January 1, 2016, technology fees earned will no longer be credited to the Board designated technology renewal fund.

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