

Financial Statements and Report of
Independent Certified Public Accountants

Municipal Securities Rulemaking Board

September 30, 2008 and 2007

Municipal Securities Rulemaking Board

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Report of Independent Certified Public Accountants

Audit Committee
Municipal Securities Rulemaking Board

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We have audited the accompanying statements of financial position of the Municipal Securities Rulemaking Board (the Board), as of September 30, 2008 and 2007, 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, 2008 and 2007, 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
November 19, 2008

A handwritten signature in cursive script that reads "Grant Thornton LLP".

Municipal Securities Rulemaking Board

Statements of Financial Position

<i>September 30,</i>	2008	2007
Assets		
Cash	\$ 1,179,000	\$ 1,018,080
Accounts receivable, net	2,658,641	2,799,032
Other receivables	35	500,035
Accrued interest receivable	216,417	192,244
Other assets	89,974	101,820
Investments	23,683,731	20,270,259
Fixed assets, net	4,092,493	2,863,549
Total Assets	\$ 31,920,291	\$ 27,745,019
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 1,634,806	\$ 1,037,057
Accrued vacation payable	271,289	289,371
Deferred rent	1,945,168	1,968,025
Deferred compensation	29,264	—
Total Liabilities	3,880,527	3,294,453
Net Assets—Unrestricted	28,039,764	24,450,566
Total Liabilities and Net Assets	\$ 31,920,291	\$ 27,745,019

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>	2008	2007
Revenue		
Underwriting assessment fees	\$ 12,188,220	\$ 12,456,134
Transaction fees	7,723,365	6,893,813
Annual fees	644,864	663,300
Data subscriber fees	390,210	375,066
Initial fees	8,800	8,500
Other income	67,668	62,101
Investment return	1,123,096	1,008,422
Board manuals	4,526	7,758
Total Revenue	22,150,749	21,475,094
Expenses		
MSIL and RTRS operations	7,224,140	6,844,783
Administration and operations	4,619,132	5,648,682
Rulemaking and policy development	4,253,688	3,614,750
Board and committee	1,545,968	1,566,723
Professional qualifications	741,022	758,473
Education and communications	177,601	178,870
Total Expenses	18,561,551	18,612,281
Change in Net Assets	3,589,198	2,862,813
Net Assets, beginning of year	24,450,566	21,587,753
Net Assets, end of year	\$ 28,039,764	\$ 24,450,566

The accompanying notes are an integral part of these statements.

Municipal Securities Rulemaking Board

Statements of Cash Flows

<i>Year ended September 30,</i>	2008	2007
Cash Flows from Operating Activities		
Change in net assets	\$ 3,589,198	\$ 2,862,813
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	1,240,710	1,161,650
Gain on disposal of fixed assets	136,373	2,088
Net amortization of investment discounts	(67,386)	(100,332)
Unrealized gains on investments	(250,871)	(226,421)
Changes in assets and liabilities:		
Accounts receivable	140,391	(507,638)
Other receivable	500,000	250,480
Accrued interest receivable	(24,173)	(15,486)
Other assets	11,847	(2,447)
Accounts payable	597,749	394,144
Accrued vacation payable	(18,082)	(3,929)
Deferred rent	(22,857)	65,400
Deferred compensation	29,264	(1,135,562)
Net Cash Provided by Operating Activities	5,862,163	2,744,760
Cash Flows from Investing Activities		
Purchases of fixed assets	(2,606,028)	(499,069)
Purchases of investments	(10,645,215)	(10,858,975)
Maturities of investments	7,550,000	8,521,501
Net Cash Used in Investing Activities	(5,701,243)	(2,836,543)
Cash Flows from Financing Activities		
Payments on capital lease obligations	—	(3,894)
Net Cash Used in Financing Activities	—	(3,894)
Net Increase (Decrease) in Cash	160,920	(95,677)
Cash, beginning of year	1,018,080	1,113,757
Cash, end of year	\$ 1,179,000	\$ 1,018,080
Supplemental Information		
Interest paid	\$ —	\$ 65

The accompanying notes are an integral part of these statements.

Municipal Securities Rulemaking Board

Notes to Financial Statements

September 30, 2008 and 2007

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.

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 of U.S. Treasury Notes and mutual funds. The U.S. Treasury Notes have various maturity dates through November 2010. The Board holds 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 unrealized gains and losses.

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

September 30, 2008 and 2007

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 its estimated useful life 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 pertaining to 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

September 30, 2008 and 2007

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.

NOTE C—INVESTMENTS

Investments consist of the following at September 30:

	2008	2007
U.S. Treasury Notes	\$ 23,654,467	\$ 20,270,259
Mutual funds	29,264	—
	<hr/>	<hr/>
	\$ 23,683,731	\$ 20,270,259

Investment return consists of the following for the years ended September 30:

	2008	2007
Interest and dividends	\$ 872,225	\$ 782,001
Unrealized gains	250,871	226,421
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	\$ 1,123,096	\$ 1,008,422

Municipal Securities Rulemaking Board

Notes to Financial Statements—Continued

September 30, 2008 and 2007

NOTE D—ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at September 30:

	2008	2007
Billed accounts receivable	\$ 2,222,287	\$ 2,290,462
Unbilled accounts receivable	638,238	508,570
	2,860,525	2,799,032
Less: allowance for doubtful accounts	(201,884)	—
	\$ 2,658,641	\$ 2,799,032

NOTE E—FIXED ASSETS

Fixed assets consist of the following as of September 30:

	2008	2007
Leasehold improvements	\$ 1,283,521	\$ 1,261,125
Office equipment	1,729,267	1,477,046
Furniture and fixtures	1,407,007	1,407,007
Capitalized software costs	7,580,972	5,385,933
	12,000,767	9,531,111
Less: accumulated depreciation and amortization	(7,908,274)	(6,667,562)
	\$ 4,092,493	\$ 2,863,549

Municipal Securities Rulemaking Board

Notes to Financial Statements—Continued

September 30, 2008 and 2007

NOTE F—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 2009. The Board is currently negotiating an extension through September 2009.

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

Year ending September 30,

2009	\$ 1,632,197
2010	1,624,040
2011	1,692,421
2012	1,771,344
2013	1,833,336
Thereafter	4,860,276
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Total minimum lease payments	\$ 13,413,614

Total rent expense for office space and equipment for the years ended September 30, 2008 and 2007, was \$2,349,677 and \$2,271,444, respectively.

Employment Agreements

As of September 30, 2005, the Board had an employment agreement with its former 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.

Municipal Securities Rulemaking Board

Notes to Financial Statements—Continued

September 30, 2008 and 2007

NOTE F—COMMITMENTS—Continued

Employment Agreements—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, was payable at the end of the term of the new contract subject to the terms thereof. The contract calls for additional deferred compensation (457(f) contributions) for the Executive Director and amounts to be held in a Rabbi Trust established by the Board for a period of three years. The aggregate amount held in the Rabbi Trust was paid in July 2007, at the same time the SERP payment was paid to the Executive Director. In addition, the contract calls for medical benefits to be provided to the Executive Director and his spouse for a term ending on December 12, 2012. As of September 30, 2008, the Board has included a liability related to this benefit of \$102,066 in accounts payable.

In addition to the above agreement, the Board entered into separation agreements in September 2008 with two former employees of the Board. The agreements call for payments of \$728,211 to be paid in full over the next year. The Board has recorded a liability for these amounts as of September 30, 2008. As of September 30, 2008, the Board has recorded a liability related to these agreements of \$728,211 in accounts payable.

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. As of September 30, 2008, the Board has made payments of \$35,000 into a 457(f) account with Principal Financial. The Board has recorded a deferred compensation liability of \$29,264 to represent the fair market value of this account as of September 30, 2008.

NOTE G—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 preceding 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 \$565,507 and \$589,632 for the years ended September 30, 2008 and 2007, respectively.

All administrative expenses of the plan are paid by the Board. Administrative expenses totaled \$17,799 and \$18,912 for the years ended September 30, 2008 and 2007, respectively.

Municipal Securities Rulemaking Board

Notes to Financial Statements—Continued

September 30, 2008 and 2007

NOTE G—RETIREMENT PLAN—Continued

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 \$55,200 and \$86,370 for the years September 30, 2008 and 2007, respectively.

NOTE H—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, 2008 and 2007, since the Board believes that there is no unrelated business income.

NOTE I—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.