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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Audit Committee of
 Municipal Securities Rulemaking Board
 Alexandria, Virginia

We have audited the accompanying statements of financial position of Municipal Securities Rulemaking Board (the "Board") as of September 30, 2011, and the related statements of activities and changes in net assets, and cash flows for the year 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 audit. The financial statements of the Board for the year ended September 30, 2010 were audited by other auditors whose report, dated December 2, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Board as of September 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

December 14, 2011

STATEMENTS OF FINANCIAL POSITION

<i>As of September 30,</i>	2011	2010
Assets		
Cash	\$ 2,931,963	\$ 1,736,866
Accounts receivable—net	6,247,626	3,927,581
Accrued interest receivable	—	72,998
Other assets	440,613	208,804
Investments	19,320,350	16,228,328
Fixed assets—net of accumulated depreciation and amortization of \$16,310,663 and \$12,782,423 in 2011 and 2010	7,710,858	7,586,312
Total	\$36,651,410	\$29,760,889
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 1,060,418	\$ 1,137,604
Accrued vacation payable	549,789	758,728
Deferred rent	1,642,583	1,814,979
Deferred compensation	59,684	114,252
Total liabilities	3,312,474	3,825,563
Undesignated net assets	30,502,641	25,935,326
Designated technology renewal fund	2,836,295	—
Net assets—unrestricted	33,338,936	25,935,326
Total	\$36,651,410	\$29,760,889

See notes to financial statements.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended September 30,

2011

2010

Revenue:

Underwriting assessment fees	\$11,368,394	\$13,984,780
Transaction fees	11,348,228	6,940,551
Technology fees	6,280,060	—
Rule violation fine revenue	1,983,833	—
Annual and initial fees	1,281,200	1,018,821
Data subscriber fees	1,021,412	509,547
Professional qualifications examination fees	122,520	92,220
Investment return	60,145	92,715
Publications and other income	13,697	41,612

Total Revenue

33,479,489 22,680,246

Expenses:

Rulemaking and policy development	4,483,383	4,133,981
Board governance and rulemaking oversight	1,631,778	1,625,522
Market information transparency programs and operations	13,907,119	11,858,000
Market leadership, outreach and education	1,367,044	863,495
Administration	4,686,555	4,650,410

Total Expenses

26,075,879 23,131,408

Change in Net Assets

7,403,610 (451,162)

Net Assets—Beginning of year

25,935,326 26,386,488

Net Assets—End of year

\$33,338,936 \$25,935,326

See notes to financial statements.

STATEMENTS OF CASH FLOWS

<i>For the years ended September 30,</i>	2011	2010
Cash Flows from Operating Activities:		
Change in net assets	\$ 7,403,610	\$ (451,162)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,058,819	3,252,682
Impairment of long-lived assets	37,835	—
Loss on disposal of long-lived assets	14,804	3,980
Net amortization of investment discounts	21,322	187,974
Unrealized loss on investments	27,726	212,133
Bad debt expense	41,073	31,265
Changes in assets and liabilities:		
Accounts receivable	(2,361,117)	(271,191)
Accrued interest receivable	72,998	89,755
Other assets	(231,809)	(23,663)
Accounts payable and accrued liabilities	(77,188)	(472,416)
Accrued vacation payable	(208,940)	52,784
Deferred rent	(172,396)	(92,316)
Deferred compensation	(54,568)	43,964
Net cash provided by operating activities	<u>8,572,169</u>	<u>2,563,789</u>
Cash Flows from Investing Activities:		
Purchases of fixed assets	(4,236,002)	(3,819,043)
Purchases of investments	(30,545,764)	(8,709,421)
Maturities of investments	27,404,694	10,325,000
Net cash used in investing activities	<u>(7,377,072)</u>	<u>(2,203,464)</u>
Cash Flow from Financing Activity—		
Payments on note payable	—	(97,629)
Net Increase in Cash	1,195,097	262,696
Cash—Beginning of year	<u>1,736,866</u>	<u>1,474,170</u>
Cash—End of year	<u>\$ 2,931,963</u>	<u>\$ 1,736,866</u>
Supplemental Information:		
Interest paid	\$ —	\$ 4,920
Taxes paid	\$ 14,041	\$ 13,739

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 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, as an independent, self-regulatory organization charged with protecting investors 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. Effective May 17, 1989, the MSRB became incorporated as a not-for-profit, non-stock corporation in the Commonwealth of Virginia. The MSRB also collects and disseminates market information, and operates the Electronic Municipal Market Access (EMMA[®]) website to promote transparency and widespread access to information.

On October 1, 2010, the MSRB's mission was expanded by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) to protect municipal entities and obligated persons and to undertake rulemaking in connection with the municipal advisory activities of municipal advisors.

NOTE 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).

Investments

Investments are stated at fair value. Investments consist of United States (U.S.) Treasury notes, government-guaranteed agency securities, and mutual funds. The U.S. Treasury notes had various maturity dates through April 2011. MSRB 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 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 all means of collection have been exhausted and 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 and accounts receivable. Cash balances at times are in excess of federally insured amounts and, as a result, subject the MSRB to a degree of credit risk. As of September 30, 2011 and 2010, the MSRB's uninsured cash balance amounts to \$0 and \$1,236,866, respectively. As of January, 2011, the MSRB maintained all cash in a non-interest-bearing account with unlimited FDIC insurance. Accounts receivable consist of fees due from municipal securities brokers and dealers. 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 37% and 43% of total revenues in fiscal year 2011 and fiscal year 2010, 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.

Reclassifications

Certain amounts included in the fiscal year 2010 financial statements have been reclassified to conform to the fiscal year 2011 presentation. Annual fees and initial fees revenue have been combined. To be consistent with fiscal year 2011 allocations of expenses across program services, technology expenses for internal corporate support of \$1,258,682 included in Administration in fiscal year 2010 were allocated among the program services benefited.

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. 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 internal use 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 and certain office equipment 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.

Revenue Recognition:

Underwriting Assessment Fees—With the limited exceptions noted below, the underwriting assessment fee is equal to a \$0.03 per \$1,000 of the face amount of municipal securities, which are purchased by underwriters from an issuer as part of a new issue. Beginning December 1, 2009, the MSRB assessment increased to \$0.03 per \$1,000 for new issue municipal securities puttable back to the issuer between nine months and two years or with a final stated maturity between nine months and two years which were previously assessed at a rate of \$0.01 per \$1,000. Additionally, beginning December 1, 2009, the MSRB applied its \$0.03 per \$1,000 underwriting assessment to previously exempt securities, including those (i) with a par value of less than \$1 million; (ii) sold in certain limited offerings or private placements; (iii) that are puttable back to the issuer every nine months or less, such as variable rate demand obligations; and (iv) with a final stated maturity of nine months or less. 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—Prior to January 1, 2011, the transaction fee was \$0.005 per \$1,000 par value of bonds sold and was levied on both customer and interdealer transactions as specified in Board Rule A-13. As described in this rule, certain transactions are exempt from this fee. Effective January 1, 2011, the transaction fees paid by municipal securities dealers increased from \$0.005 per \$1,000 par value to \$0.01 per \$1,000 par value.

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

Technology Fees—Effective January 1, 2011, the MSRB established a new technology fee on municipal securities trades reported to the MSRB. Municipal securities dealers are required to pay an assessment of \$1.00 per transaction 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. Unbilled receivables consist primarily of September transaction and technology fees revenue billed in October.

Rule Violation Fee Revenue—The Dodd-Frank Act provided, as of October 1, 2010, 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. FINRA fine revenue is recorded in the month earned. At September 30, 2011, no SEC fine revenue has accrued to the benefit of the MSRB.

Annual and Initial Fees—With respect to each fiscal year of the MSRB in which a municipal securities broker or dealer conducts business, the broker or dealer is required to pay an annual fee of \$500 per Rule A-14. Revenue is recognized when brokers or dealers are billed annually.

Effective October 1, 2010, the Dodd-Frank Act also expanded MSRB's regulatory jurisdiction to cover municipal advisors who advise state and local governments and other municipal entities on municipal financial products and municipal securities. Rule A-14 governing annual fees was amended to include municipal advisors, effective as of November 15, 2010, at which time the MSRB began registering and collecting an annual fee of \$500 as part of the registration process for municipal advisors. During fiscal year 2011, municipal advisor annual fee revenue is recognized when received.

The initial fee is a onetime fee of \$100, which is to be paid by every municipal securities broker or dealer upon registration with the MSRB under Rule A-12. Rule A-12 was amended to include municipal advisors, effective as of November 15, 2010, at which time the MSRB began collecting the one-time fee of \$100 from municipal advisors. 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 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[®] 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[®] 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 in these systems 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 maintains files for public access of information submitted by municipal securities brokers and dealers in connection with political contributions and municipal securities business under MSRB Rule G-37. Copying fees are levied at the time of use for the reproduction of any documents.

Professional Qualification Examination Fees—New Rule A-16 established an examination fee of \$60 assessed on persons taking certain qualification examinations, which became effective on January 4, 2010. 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.

New Accounting Pronouncement

In May 2011, the Financial Accounting Standards Board issued amendments to the guidance pertaining to fair value measurement and disclosure. The amendments create a common definition of fair value for GAAP and International Financial Reporting Standards (IFRS) and align the measurement and disclosure requirements. These amendments provide further guidance on some of the principles for measuring fair value and expand the disclosure requirements specifically for Level 3 fair value measurements. The new requirements are effective for annual periods beginning after December 15, 2011 and will be applied prospectively. The MSRB has determined that the adoption of these new requirements will not have a material impact on its changes in net assets or financial position.

NOTE 3.—INVESTMENTS

Investments as of September 30, 2011 and 2010, consist of the following:

	2011	2010
U.S. Treasury notes	\$ —	\$ 6,838,004
Government-guaranteed agency securities	19,263,486	9,263,250
Mutual funds	56,864	127,074
	<u>\$19,320,350</u>	<u>\$16,228,328</u>

Investment return for the years ended September 30, 2011 and 2010, consists of the following:

	2011	2010
Interest and dividends	\$ 87,871	\$ 304,848
Unrealized losses	(27,726)	(212,133)
	<u>\$ 60,145</u>	<u>\$ 92,715</u>

NOTE 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, 2011 and 2010 because of the relatively short duration of these instruments.

The MSRB's policy defines fair value, uses a framework for measuring fair value, and 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, and as of September 30, 2010, any U.S. Treasury notes and government-guaranteed agency securities that had trades on the observation date.

The MSRB's Level 2 investments include government-guaranteed agency securities which on September 30, 2010 had no observable trades. For the year ended September 30, 2011, the MSRB determined that it was most appropriate to consider the market for government-guaranteed agency securities as inactive, regardless of observable trades on September 30, 2011. Therefore as of September 30, 2011, all government-guaranteed agency securities are considered Level 2 investments.

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 (e.g., Bloomberg) 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, 2011 and 2010, based on the following levels of hierarchy:

2011	Level 1	Level 2	Level 3	Total
Government-guaranteed agency securities	\$ —	\$19,263,486	\$ —	\$19,263,486
Mutual funds	56,864	—	—	56,864
	<u>\$ 56,864</u>	<u>\$19,263,486</u>	<u>\$ —</u>	<u>\$19,320,350</u>

2010	Level 1	Level 2	Level 3	Total
U.S. Treasury notes	\$ 6,838,004	\$ —	\$ —	\$ 6,838,004
Government-guaranteed agency securities	4,263,850	4,999,400	—	9,263,250
Mutual funds	127,074	—	—	127,074
	<u>\$11,228,928</u>	<u>\$ 4,999,400</u>	<u>\$ —</u>	<u>\$16,228,328</u>

NOTE 5.—ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2011 and 2010, consist of the following:

	2011	2010
Billed accounts receivable	\$4,619,887	\$3,436,286
Unbilled accounts receivable	1,899,778	726,846
	<u>6,519,665</u>	<u>4,163,132</u>
Less allowance for doubtful accounts	(272,039)	(235,551)
	<u>\$6,247,626</u>	<u>\$3,927,581</u>

NOTE 6.—FIXED ASSETS

Fixed assets as of September 30, 2011 and 2010, consist of the following:

	2011	2010
Leasehold improvements	\$ 1,936,517	\$ 1,421,356
Computer and office equipment	2,236,216	2,350,974
Furniture and fixtures	1,662,357	1,418,815
Capitalized software costs	18,186,431	15,177,590
	<u>24,021,521</u>	<u>20,368,735</u>
Less accumulated depreciation and amortization:		
Leasehold improvements	(1,001,730)	(796,229)
Computer and office equipment	(1,500,319)	(1,615,016)
Furniture and fixtures	(1,362,580)	(1,319,282)
Capitalized software costs	(12,446,034)	(9,051,896)
	<u>(16,310,663)</u>	<u>(12,782,423)</u>
	<u>\$ 7,710,858</u>	<u>\$ 7,586,312</u>

Depreciation and amortization expense during the fiscal years 2011 and 2010 are as follows:

	2011	2010
Depreciation expense	\$ 486,077	\$ 419,355
Amortization expense for capitalized software cost and leasehold improvements	3,572,742	2,833,327
	<u>\$ 4,058,819</u>	<u>\$ 3,252,682</u>

Impairment of long-lived assets—Through regular review of long-lived assets, in fiscal year 2011 an estimated impairment loss of \$37,835 was recognized.

NOTE 7.—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of September 30, 2011 and 2010, consist of the following:

	2011	2010
Accounts payable	\$ 368,306	\$ 686,859
Salaries, taxes, and benefits payable	531,889	264,290
Other accrued expenses	160,223	186,455
	<u>\$ 1,060,418</u>	<u>\$ 1,137,604</u>

NOTE 8.—NOTE PAYABLE

In May 2009, the MSRB entered into a financing agreement for the purchase of software and annual software support. Payments under this agreement totaled \$97,629 for the fiscal year ended September 30, 2010.

The debt was extinguished in May 2010. No notes payable were outstanding as of September 30, 2011 and 2010.

NOTE 9.—COMMITMENTS**Operating Leases**

The MSRB leases office space and certain office equipment 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.

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

Year ending September 30,

2012	\$1,771,344
2013	1,833,336
2014	1,897,512
2015	1,963,920
2016	998,844
	<u>\$8,464,956</u>

Total minimum lease payments

Total rent expense for office space and equipment for the years ended September 30, 2011 and 2010, was \$2,206,315 and \$2,226,223, respectively.

Employment Agreements

In accordance with the executive director's employment agreement, a 457(f) deferred compensation plan is maintained. The agreement calls for contributions of \$10,000 on September 30, 2010, \$50,000 on September 30, 2011, and \$55,000 on September 30, 2012. The sum, including all earnings and interest accrued, will be paid on September 30, 2012, or such earlier time as set forth by the agreement. During fiscal year 2011, a previously vested amount of \$126,312 was paid to the executive director. The organization maintains a mutual fund where the contributions are invested; this account is reflected as a component of MSRB's investments. As of September 30, 2011 and 2010, the MSRB has recorded a deferred compensation liability of \$59,684 and \$114,252, respectively.

The MSRB has a contract with its former executive director that calls for medical benefits to be provided to the executive director and his spouse for a term ending on December 2012. As of September 30, 2011 and 2010, MSRB has included a liability related to this benefit of \$28,551 and \$71,402, respectively, in salaries, taxes, and other benefits payable. In addition to the above agreement, the MSRB entered into separation agreements with other former employees, and as of September 30, 2011 and 2010, the MSRB has recorded a liability related to these agreements of \$208,403 and \$423, respectively, in salaries, taxes, and other benefits payable.

NOTE 10.—RETIREMENT PLAN

The MSRB 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 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 9% to 12% depending on the length of vested service as scheduled 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 \$831,881 and \$673,593 for the years ended September 30, 2011 and 2010, respectively.

All administrative expenses of the plan are paid by the MSRB. Administrative expenses total \$14,544 and \$18,014 for the years ended September 30, 2011 and 2010, respectively.

NOTE 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. No provision for income taxes has been made as of September 30, 2011 and 2010.

Effective September 30, 2010, the MSRB adopted new guidance that creates a single model to address uncertainty in tax positions and clarified the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in its financial statements. Under the requirements of this guidance, organizations could now be required to record an obligation as the result of tax positions they have historically taken on various tax exposure items. The impact of the adoption of this guidance did not have a material effect on the financial statements of MSRB. Prior to the adoption of this guidance, the determination of when to record a liability for a tax exposure was based on whether a liability was considered probable and reasonably estimable in accordance with guidance concerning recording of contingencies.

NOTE 12.—BOARD-DESIGNATED NET ASSETS

By policy, prior to January 1, 2011, the MSRB maintained sufficient cash and investments at a level not to exceed one-year of expenses. Unrestricted net assets were designated for future capital projects, including technology systems, and to fund reserves for operating expenses.

Beginning 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 technology information capital expenses. With the establishment of the technology renewal fund, the undesignated net assets provide for operating capital in the event of a revenue shortfall or for significant unplanned expenditures.

	2011
Technology fees	\$ 6,280,060
Technology capital expenditures	(3,443,765)
Designated technology renewal fund	<u>\$ 2,836,295</u>

NOTE 13.—SUBSEQUENT EVENTS

The MSRB evaluated its September 30, 2011, financial statements for subsequent events through December 14, 2011, 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.

Effective October 1, 2011, the contribution percentages for the defined contribution pension plan were reduced from a range of 9% to 12% to a range of 7% to 9%, depending on the length of vested service as scheduled in the plan document.