

Financial Statements and Report of

- Independent Certified Public Accountants

- **Municipal Securities Rulemaking Board**

September 30, 2003 and 2002

# Municipal Securities Rulemaking Board

## Contents

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<b>Report of Independent Certified Public Accountants</b>	3
<b>Financial Statements</b>	
Statements of Financial Position	4
Statements of Activities and Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7-11

**Report of Independent Certified Public Accountants**

Board of Directors  
Municipal Securities Rulemaking Board

We have audited the accompanying statements of financial position of the Municipal Securities Rulemaking Board (the Board), as of September 30, 2003 and 2002, 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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2003 and 2002, 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.

*Grant Thornton LLP*

Vienna, Virginia  
November 7, 2003

# Municipal Securities Rulemaking Board

## Statements of Financial Position

<i>September 30,</i>	<b>2003</b>	<b>2002</b>
<b>Assets</b>		
Cash	\$ 825,831	\$ 990,837
Accounts receivable, including unbilled receivables of \$518,627 and \$443,549, respectively	2,342,301	2,440,124
Accrued interest receivable	88,982	55,320
Other assets	128,899	153,910
Investments	12,528,703	8,140,144
Fixed assets, net	3,890,046	2,733,251
<b>Total Assets</b>	<b>\$ 19,804,762</b>	<b>\$ 14,513,586</b>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 393,452	\$ 207,585
Accrued vacation payable	237,774	247,411
Tenant deposit	10,000	10,000
Capital lease obligations	18,906	21,357
Deferred rent	1,355,716	1,173,261
<b>Total Liabilities</b>	<b>2,015,848</b>	<b>1,659,614</b>
<b>Net Assets—Unrestricted</b>	<b>17,788,914</b>	<b>12,853,972</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 19,804,762</b>	<b>\$ 14,513,586</b>

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

# Municipal Securities Rulemaking Board

## Statements of Activities and Changes in Net Assets

<i>Year ended September 30,</i>	2003	2002
<b>Revenue</b>		
Underwriting assessment fees	\$ 11,223,200	\$ 9,893,264
Transaction fees	5,900,332	5,291,195
Annual fees	515,900	517,200
Initial fees	24,000	32,200
MSIL fees	274,691	326,548
Investment return	173,132	104,152
Board manuals	14,901	27,392
Other income	504,069	430,217
<b>Total Revenue</b>	<b>18,630,225</b>	<b>16,622,168</b>
<b>Expenses</b>		
MSIL	4,731,610	4,714,930
Administration and operations	4,186,731	4,357,866
Rulemaking and policy development	3,096,737	3,046,172
Board and committee	688,591	715,237
Professional qualifications	725,001	678,911
Education and communications	266,613	163,223
<b>Total Expenses</b>	<b>13,695,283</b>	<b>13,676,339</b>
<b>Change in Net Assets</b>	<b>4,934,942</b>	<b>2,945,829</b>
<b>Net Assets, beginning of year</b>	<b>12,853,972</b>	<b>9,908,143</b>
<b>Net Assets, end of year</b>	<b>\$ 17,788,914</b>	<b>\$ 12,853,972</b>

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

# Municipal Securities Rulemaking Board

## Statements of Cash Flows

<i>Year ended September 30,</i>	<b>2003</b>	<b>2002</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 4,934,942	\$ 2,945,829
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	791,473	790,171
Loss on disposal of fixed assets	423	46,470
Net amortization of investment premiums	142,300	140,142
Unrealized (gains) losses on investments	(11,221)	52,215
Changes in assets and liabilities:		
Accounts receivable	97,823	(300,579)
Accrued interest receivable	(33,662)	38,047
Other assets	25,011	652,861
Accounts payable	185,867	25,475
Accrued vacation payable	(9,637)	34,706
Tenant deposit	—	10,000
Deferred rent	182,455	558,900
<b>Net Cash Provided by Operating Activities</b>	<b>6,305,774</b>	<b>4,994,237</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of fixed assets	(1,948,691)	(1,422,622)
Purchases of investments	(11,065,432)	(9,005,625)
Maturities of investments	6,545,794	5,700,000
<b>Net Cash Used in Investing Activities</b>	<b>(6,468,329)</b>	<b>(4,728,247)</b>
<b>Cash Flows from Financing Activities</b>		
Payments on capital lease obligations	(2,451)	(32,542)
<b>Net (Decrease) Increase in Cash</b>	<b>(165,006)</b>	<b>233,448</b>
<b>Cash, beginning of year</b>	<b>990,837</b>	<b>757,389</b>
<b>Cash, end of year</b>	<b>\$ 825,831</b>	<b>\$ 990,837</b>
<b>Supplemental Information</b>		
Interest paid	\$ 1,020	\$ 3,423

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

# Municipal Securities Rulemaking Board

## Notes to Financial Statements

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*September 30, 2003 and 2002*

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### **NOTE A—NATURE OF OPERATIONS**

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

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

#### *Use of Estimates*

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

#### *Investments*

Investments are stated at fair value as determined by quoted market prices. Investments consist entirely of U.S. Treasury Notes. The U.S. Treasury Notes have various maturity dates through May 2006.

Investment return consists of interest income of \$161,911 and \$156,367 and unrealized gains (losses) of \$11,221 and \$(52,215) for the years ended September 30, 2003 and 2002, respectively. Amortization and accretion of investment premiums and discounts are recorded as a component of unrealized gains (losses).

#### *Fixed Assets*

Furniture and fixtures 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. Internal-use computer software is recorded at cost and amortized over its estimated useful life.

#### *Underwriting Assessment Fees*

On March 10, 1992, the Board filed with the Securities and Exchange Commission (SEC) an amendment to Rule A-13 on assessments relating to the underwriting of municipal securities offerings. The amendment relates to the Board's method of assessment, the scope of offerings which are assessed, and assessment rates.

# Municipal Securities Rulemaking Board

## Notes to Financial Statements—Continued

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*September 30, 2003 and 2002*

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

#### *Underwriting Assessment Fees—Continued*

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 ranges from .001 percent to .003 percent of the par value of the offerings.

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

#### *Annual Fees*

With respect to each fiscal year of the Board in which a municipal securities broker or municipal securities dealer conducts business, the municipal securities broker or municipal securities dealer is required to pay an annual fee of \$200. Annual fees revenue is recognized when brokers or dealers are billed.

#### *Initial Fees*

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

#### *Municipal Securities Information Library (MSIL) Fees*

MSIL collects, stores, and provides access to information necessary for the municipal securities market. MSIL 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 transactions for purposes of price transparency and surveillance (the TRS system). Information in these systems is sold to subscribers on a subscription basis with billing quarterly 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.

#### *Transaction Fees*

On May 10, 1996, the SEC approved an amendment to Board Rule A-13 to implement a new transaction fee on each inter-dealer sales transaction in municipal securities. The fee, one-half cent per \$1,000 par value of bonds, is levied on the sellers on inter-dealer transactions.

On April 10, 2000, Board Rule A-13 was expanded to include a fee assessment on the customer sales transaction activities of municipal securities dealers. The customer sales transaction fee was also set at one-half cent per \$1,000 par value of bonds. In addition, exemptions from the transaction fees were provided for transactions effected in certain classes of bonds.



# Municipal Securities Rulemaking Board

## Notes to Financial Statements—Continued

September 30, 2003 and 2002

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

#### *Transaction Fees—Continued*

The transaction fees will help pay for the Board's transaction-reporting program, which is designed to provide the public and federal regulators with pricing and other information on bond trades.

Dealers are billed monthly for sales transactions that were settled during the previous month. Revenue is recognized when dealers are billed. The unbilled receivables consist entirely of the September transaction fees revenue that is billed in October.

#### *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 to 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 municipal securities dealers.

### NOTE C—FIXED ASSETS

Fixed assets consist of the following as of September 30:

	2003	2002
Leasehold improvements	\$ 1,653,895	\$ 1,952,712
Office equipment	1,664,324	1,814,306
Furniture and fixtures	1,332,835	1,332,835
Software	2,616,496	770,156
	7,267,550	5,870,009
Less: accumulated depreciation and amortization	(3,377,504)	(3,136,758)
	\$ 3,890,046	\$ 2,733,251

Office equipment includes assets acquired under capital leases of \$97,227 and \$111,788 at September 30, 2003 and 2002, respectively. The related accumulated depreciation for assets acquired under capital leases totaled \$82,832 and \$97,487 at September 30, 2003 and 2002, respectively.

# Municipal Securities Rulemaking Board

## Notes to Financial Statements—Continued

September 30, 2003 and 2002

### NOTE D—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. In connection with the move, the Board entered into a lease for the new office space and into various sublease agreements for its former office space in Washington, D.C. The lease on the Washington, D.C. space, and related sublease agreements, expire in February 2004. The new office lease expires in fiscal year 2016. The Board also leases office space in Manassas, Virginia for operations as provided in its emergency readiness plan. This lease expires in April 2008.

Office equipment under capital lease obligations consists of a postage meter machine and a photocopier.

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

<i>Year ending September 30,</i>	<b>Capital Leases</b>	<b>Operating Leases</b>
2004	\$ 6,091	\$ 1,659,157
2005	5,280	1,440,501
2006	5,280	1,473,086
2007	3,960	1,519,374
2008	—	1,530,694
Thereafter	—	13,315,812
Total minimum lease payments	20,611	\$ 20,938,624
Less: amount representing interest	(1,705)	
	\$ 18,906	

The Board subleases office space under subleases expiring in February 2004. Future minimum sublease income is \$232,267 for the year ending September 30, 2004.

Total rent expense for office space and equipment for the years ended September 30, 2003 and 2002, was \$2,944,262 and \$3,312,904, respectively.

## Municipal Securities Rulemaking Board

### Notes to Financial Statements—Continued

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*September 30, 2003 and 2002*

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#### **NOTE E—RETIREMENT PLAN**

The Board has a defined contribution pension plan for all employees. Participation commences upon completion of one year of eligibility 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 \$440,510 and \$406,450 for the years ended September 30, 2003 and 2002, respectively.

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#### **NOTE F—INCOME TAXES**

The Board is exempt from taxes on income other than unrelated business income under Section 501(c)(6) of the Internal Revenue Code and applicable income tax regulations of the District of Columbia. No provision for income taxes has been made as of September 30, 2003 and 2002, since the Board believes that there is no unrelated business income.