

Financial Statements – Fiscal Years Ended September 30, 1999 and 1998**PRICEWATERHOUSECOOPERS** 

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Report of Independent Accountants

To the Members of the
Municipal Securities Rulemaking Board, Inc.

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of the Municipal Securities Rulemaking Board, Inc. (the Board) at September 30, 1999 and 1998, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. 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 of these statements in accordance with auditing standards generally accepted in the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

November 30, 1999

MUNICIPAL SECURITIES RULEMAKING BOARD, INC.
STATEMENTS OF FINANCIAL POSITION
as of September 30, 1999 and 1998

	1999	1998
ASSETS		
Cash	\$ 185,465	\$ 404,972
Accounts receivable	969,849	1,004,534
Accrued interest receivable	21,609	37,277
Other receivables	600	44,688
Other assets	112,109	84,473
Investments	8,078,358	7,237,590
Fixed assets, net	978,046	1,433,065
Total assets	\$ 10,346,036	\$ 10,246,599
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 130,519	\$ 218,625
Accrued vacation payable	147,254	107,596
Capital lease liability	186,347	-
Deferred rent credit	454,473	462,128
Total liabilities	918,593	788,349
Unrestricted net assets	9,427,443	9,458,250
Total liabilities and net assets	\$ 10,346,036	\$ 10,246,599

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

MUNICIPAL SECURITIES RULEMAKING BOARD, INC.

STATEMENTS OF ACTIVITIES

for the years ended September 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
REVENUE:		
Underwriting assessment fees	\$ 6,819,726	\$ 8,162,250
Annual fees	502,900	525,200
Initial fees	16,400	19,100
MSIL fees	286,685	329,245
Transaction fees	1,779,116	1,889,903
Interest income on investments	362,057	318,405
Unrealized gains (losses) on investments	(23,285)	-
Board manuals and other	<u>75,295</u>	<u>105,551</u>
Total revenue	<u>9,818,894</u>	<u>11,349,654</u>
EXPENSES:		
Administration and operations	2,603,692	2,038,667
Board and committee	695,537	524,470
Professional qualifications	439,810	295,788
Arbitration	-	119,172
MSIL	3,696,350	4,659,656
Education and communications	303,969	371,546
Rulemaking and policy development	<u>2,110,343</u>	<u>1,710,282</u>
Total expenses	<u>9,849,701</u>	<u>9,719,581</u>
Change in net assets	(30,807)	1,630,073
Unrestricted net assets, beginning of year	<u>9,458,250</u>	<u>7,828,177</u>
Unrestricted net assets, end of year	<u>\$ 9,427,443</u>	<u>\$ 9,458,250</u>

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

MUNICIPAL SECURITIES RULEMAKING BOARD, INC.

STATEMENTS OF CASH FLOWS

for the years ended September 30, 1999 and 1998

	1999	1998
Cash flows from operating activities:		
Change in net assets	\$ (30,807)	\$ 1,630,073
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	831,044	760,491
Amortization of investment premium	49,260	10,806
Loss on disposal of fixed assets	21,673	-
Unrealized loss on investment	23,285	-
Decrease/(increase) in accounts receivable	34,685	(84,875)
Decrease/(increase) in accrued interest receivable	15,668	(9,444)
Decrease/(increase) in other receivable	44,088	(44,688)
(Increase)/decrease in prepaid expenses	(27,636)	185,530
(Decrease) in accounts payable	(88,106)	(176,128)
Increase in accrued vacation payable	39,658	15,877
(Decrease) in deferred revenue	-	(17,221)
(Decrease)/increase in deferred rent credit	(7,655)	99,194
	<u>905,157</u>	<u>2,369,615</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of fixed assets	(165,651)	(727,631)
Purchases of investments	(4,913,313)	(6,644,353)
Maturities of investments	4,000,000	4,600,000
	<u>(1,078,964)</u>	<u>(2,771,984)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Payments on capital lease obligations	(45,700)	-
Net cash used by financing activities	<u>(45,700)</u>	<u>-</u>
Net decrease in cash	(219,507)	(402,369)
Cash, beginning of year	<u>404,972</u>	<u>807,341</u>
Cash, end of year	<u>\$ 185,465</u>	<u>\$ 404,972</u>
Supplemental information:		
Interest paid	<u>\$ 17,923</u>	<u>\$ -</u>
Fixed assets obtained from capital lease obligations	<u>\$ 232,047</u>	<u>\$ -</u>

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

MUNICIPAL SECURITIES RULEMAKING BOARD, INC.
NOTES TO FINANCIAL STATEMENTS

1. Organization and nature of activities

The Municipal Securities Rulemaking Board, Inc. (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 nonprofit, nonstock corporation in the Commonwealth of Virginia.

2. Summary of significant accounting policies

Investments

Investments in securities are stated at fair value. Investments consist entirely of U.S. Treasury notes, maturing on various dates through March 2001.

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. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss arising from such disposition is included in the statement of activities.

Underwriting assessment fees

On March 10, 1992, the Board filed with the Securities and Exchange Commission (the 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.

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% to .003% of the par value of the offerings.

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MUNICIPAL SECURITIES RULEMAKING BOARD, INC.
NOTES TO FINANCIAL STATEMENTS

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.

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.

Revenue from initial fees is recognized when received by the Board.

MSIL fees

The Municipal Securities Information Library (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 inter-dealer transactions for purposes of price transparency and surveillance (the TRS system). Information in these systems is sold to subscribers, primarily commercial information vendors, 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

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MUNICIPAL SECURITIES RULEMAKING BOARD, INC.
NOTES TO FINANCIAL STATEMENTS

securities. The fee, one-half cent per \$1,000 par value of bonds, is levied on the sellers on inter-dealer transactions.

The transaction fee 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 month. Revenue is recognized when billings are made.

Management estimates and uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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 consists 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.

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MUNICIPAL SECURITIES RULEMAKING BOARD, INC.
NOTES TO FINANCIAL STATEMENTS

3. Fixed assets

Fixed assets consist of the following as of September 30, 1999 and 1998:

	1999	1998
Leasehold improvements	\$ 792,931	\$ 781,289
Office equipment	2,304,552	2,930,977
Furniture and fixtures	970,721	976,043
Total fixed assets	4,068,204	4,688,309
Accumulated depreciation and amortization	(3,090,158)	(3,255,244)
	\$ 978,046	\$ 1,433,065

Office equipment includes assets acquired during the year ended September 30, 1999, under capital leases, principally photocopiers and fax machines of \$232,047, at September 30, 1999. The related accumulated amortization for assets acquired under capital leases totalled \$53,177 at September 30, 1999.

4. Lease agreements

On October 1, 1992, the Board entered into a lease agreement for office space in Alexandria, VA, for a term of sixty months. This lease was amended in October, 1994 for additional space. In March 1997, the Board approved an extension of the original lease for an additional 60 months commencing on October 2, 1997. The lease requires a monthly rental payment of \$27,619 for the period October 2, 1997 to September 30, 1998. Subsequent to September 30, 1998, the annual rent increases by three percent (3%) throughout the term of the lease.

In August, 1993, the Board entered into a lease agreement for office space in Washington, D.C. The lease term is for 120 months, commencing on March, 1994, with one five-year renewal option. The lease agreement also includes a rent abatement period of fifteen months commencing on the second month of the lease term. As a result, the total rental payment was \$21,579 for May 1994, and is \$22,119 a month commencing September 1995 for the remainder of the lease term, subject to an annual escalation of two and one-half

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MUNICIPAL SECURITIES RULEMAKING BOARD, INC.

NOTES TO FINANCIAL STATEMENTS

percent (2.5%). Effective on the first day of the sixth lease year, the lease includes an increase of \$2.50 per rentable square foot. In September 1993, the Board expanded its D.C. office premises and acquired additional space under the lease agreement. This amendment requires a monthly payment of \$8,034 and is subject to the annual escalation of two and one-half percent (2.5%) and the additional amount of \$2.50 per rentable square foot effective on the first day of the sixth leasing year. In August 1997, the Board again exercised its option to expand its D.C. office premises. The second amendment to the original lease agreement requires a monthly rental payment of \$13,581. The Board was given an abatement for the first ten months after the commencement date of August 1, 1997.

Future minimum lease payments under noncancelable capital leases and operating leases are as follows:

<u>Year ending September 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2000	\$ 69,407	\$ 898,537
2001	69,407	907,583
2002	69,407	924,596
2003	5,784	562,759
2004	-	236,890
Total minimum lease payments	<u>214,005</u>	<u>\$ 3,530,365</u>
Less: amount representing interest	<u>(27,658)</u>	
	<u>\$ 186,347</u>	

Total rent expense for office space and equipment for the years ended September 30, 1999 and 1998, was \$1,265,716 and \$1,163,551, respectively.

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MUNICIPAL SECURITIES RULEMAKING BOARD, INC.
NOTES TO FINANCIAL STATEMENTS

5. Retirement plans

The Board has a defined contribution retirement plan which covers all employees. The Board makes contributions to an insurance company based on a percentage of the salaries of covered employees and their lengths of service. Retirement plan costs are funded as they accrue. Employees may also make voluntary contributions. Expenditures relating to the plan were approximately \$205,093 and \$233,495 for the years ended September 30, 1999 and 1998, respectively.

6. Income taxes

Under section 501(c)(6) of the Internal Revenue Code and applicable income tax regulations of the District of Columbia, the Board is exempt from taxes on income other than unrelated business income. No provision for income taxes has been made as of September 30, 1999 and 1998, since the Board believes that any unrelated business income is not significant.