

Financial Statements – Fiscal Years Ended September 30, 2000 and 1999**PRICEWATERHOUSECOOPERS** 

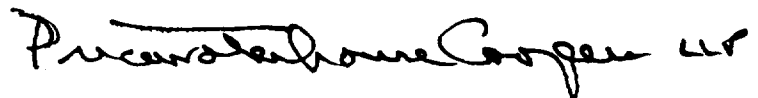
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Report of Independent Accountants

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, 2000 and 1999, 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 of America. 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 of America, 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 our opinion.

December 4, 2000



MUNICIPAL SECURITIES RULEMAKING BOARD, INC.
STATEMENTS OF FINANCIAL POSITION
as of September 30, 2000 and 1999

	2000	1999
ASSETS		
Cash	\$ 1,013,344	\$ 185,465
Accounts receivable, including unbilled receivables of \$298,541 in 2000	1,553,423	969,849
Accrued interest receivable	96,792	21,609
Other assets	107,706	112,709
Investments	5,936,743	8,078,358
Fixed assets, net	982,811	978,046
Total assets	\$ 9,690,819	\$ 10,346,036
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 160,997	\$ 130,519
Accrued vacation payable	178,560	147,254
Capital lease liability	196,080	186,347
Deferred rent credit	381,420	454,473
Total liabilities	917,057	918,593
Unrestricted net assets	8,773,762	9,427,443
Total liabilities and net assets	\$ 9,690,819	\$ 10,346,036

*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, 2000 and 1999

	<u>2000</u>	<u>1999</u>
REVENUE:		
Underwriting assessment fees	\$ 5,416,023	\$ 6,819,726
Annual fees	501,900	502,900
Initial fees	18,100	16,400
MSIL fees	448,366	286,685
Transaction fees	2,712,867	1,779,116
Interest income on investments	447,970	362,057
Unrealized (losses) on investments	(15,325)	(23,285)
Board manuals and other	67,203	75,295
	<u>9,597,104</u>	<u>9,818,894</u>
Total revenue		
EXPENSES:		
Administration and operations	2,640,713	2,603,692
Board and committee	742,496	695,537
Professional qualifications	473,999	439,810
MSIL	3,797,600	3,696,350
Education and communications	260,244	303,969
Rulemaking and policy development	2,335,733	2,110,343
	<u>10,250,785</u>	<u>9,849,701</u>
Total expenses		
Change in net assets	(653,681)	(30,807)
Unrestricted net assets, beginning of year	<u>9,427,443</u>	<u>9,458,250</u>
Unrestricted net assets, end of year	<u>\$ 8,773,762</u>	<u>\$ 9,427,443</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, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Change in net assets	\$ (653,681)	\$ (30,807)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	610,078	831,044
Amortization of investment premium	7,117	49,260
(Gain)/Loss on disposal of fixed assets	(1,746)	21,673
Unrealized loss on investments	15,325	23,285
(Increase)/Decrease in accounts receivable	(583,574)	34,685
(Increase)/Decrease in accrued interest receivable	(75,183)	15,668
Decrease in other assets	5,003	16,452
Increase/(Decrease) in accounts payable	30,478	(88,106)
Increase in accrued vacation payable	31,306	39,658
Decrease in deferred rent credit	(73,053)	(7,655)
Net cash (used)/provided by operating activities	<u>(687,930)</u>	<u>905,157</u>
Cash flows from investing activities:		
Purchases of fixed assets	(536,802)	(165,651)
Proceeds from sale of fixed assets	1,746	-
Purchases of investments	(2,880,827)	(4,913,313)
Maturities of investments	5,000,000	4,000,000
Net cash provided/(used) in investing activities	<u>1,584,117</u>	<u>(1,078,964)</u>
Cash flows from financing activities:		
Payments on capital lease obligations	(68,308)	(45,700)
Net cash used by financing activities	<u>(68,308)</u>	<u>(45,700)</u>
Net increase/ (decrease) in cash	827,879	(219,507)
Cash, beginning of year	<u>185,465</u>	<u>404,972</u>
Cash, end of year	<u>\$ 1,013,344</u>	<u>\$ 185,465</u>
Supplemental information:		
Interest paid	<u>\$ 19,943</u>	<u>\$ 17,923</u>
Fixed assets obtained from capital lease obligations	<u>\$ 78,041</u>	<u>\$ 232,047</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 and bills, maturing on various dates through July 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. Internal use computer software is recorded at cost and amortized over the estimated useful life of the asset. 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.

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MUNICIPAL SECURITIES RULEMAKING BOARD, INC.
NOTES TO FINANCIAL STATEMENTS

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.

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.

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MUNICIPAL SECURITIES RULEMAKING BOARD, INC.
NOTES TO FINANCIAL STATEMENTS

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.

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 billings are made.

Management estimates and uncertainties

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.

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, 2000 and 1999:

	2000	1999
Leasehold improvements	\$ 813,966	\$ 792,931
Office equipment	2,437,351	2,304,552
Furniture and fixtures	970,721	970,721
Internal use computer software	224,309	-
Total fixed assets	4,446,347	4,068,204
Accumulated depreciation and amortization	(3,463,536)	(3,090,158)
	\$ 982,811	\$ 978,046

Office equipment includes assets acquired under capital leases, principally photocopiers and fax machines of \$310,088 and \$232,047, at September 30, 2000 and 1999, respectively. The related accumulated amortization for assets acquired under capital leases totalled \$74,753 and \$53,177 at September 30, 2000 and 1999, respectively.

Unamortized internal use computer software consists of \$209,261 at September 30, 2000. The total amount expensed for amortization of internal use computer software was \$15,048 at September 30, 2000.

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 required 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

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MUNICIPAL SECURITIES RULEMAKING BOARD, INC.
NOTES TO FINANCIAL STATEMENTS

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 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 non-cancelable capital leases and operating leases are as follows:

Year ending September 30,	Capital Leases	Operating Leases
2001	\$ 95,279	\$ 965,115
2002	95,279	982,128
2003	26,280	620,291
2004	812	251,273
Total minimum lease payments	217,650	\$ 2,818,807
Less amount representing interest	(21,574)	
	\$ 196,076	

Total rent expense for office space and equipment for the years ended September 30, 2000 and 1999, was \$1,166,172 and \$1,265,716, 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 \$345,850 and \$205,093 for the years ended September 30, 2000 and 1999, 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, 2000 and 1999, since the Board believes that any unrelated business income is not significant.

7. Subsequent Event

In October 2000, the Board entered into a new 180-month lease agreement to acquire new office space in Alexandria, Virginia. The Board intends to discontinue the occupancy of its Washington DC and Alexandria offices and jointly occupy the new office space. The lease covers approximately 47,550 square feet of rentable floor area with a base rental rate of approximately \$24.00 per square foot. The lease also includes an escalation clause with varying annual increases not to exceed \$0.88 in the second year and \$1.42 in the fifteenth year of the lease.