

Municipal Securities Rulemaking Board

Financial Statements as of and for the
Years Ended September 30, 2017 and 2016



Report of Independent Auditors

To the Board of Directors of
The Municipal Securities Rulemaking Board

We have audited the accompanying financial statements of the Municipal Securities Rulemaking Board (the MSRB), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and of cash flows for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the MSRB's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MSRB's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MSRB as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the MSRB as of September 30, 2016 and for the year then ended were audited by other auditors whose report, dated December 15, 2016, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP" in a cursive script.

December 15, 2017

PricewaterhouseCoopers LLP, 1800 Tysons Blvd., Suite 900, McLean, VA 22102
T: (703) 918 3000, F: (703) 918 3100, www.pwc.com/us

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

| <i>As of September 30, 2017 and 2016</i> | 2017 | 2016 |
|--|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,864,342 | \$ 3,752,266 |
| Investments | 61,803,743 | 56,117,474 |
| Accounts receivable — net | 5,596,140 | 5,860,917 |
| Prepaid and other assets | 1,460,666 | 1,026,330 |
| Accrued interest receivable | 272,844 | 216,874 |
| Fixed assets — net | 13,513,381 | 12,574,094 |
| TOTAL | \$84,511,116 | \$79,547,955 |
| LIABILITIES AND NET ASSETS | | |
| Accounts payable and accrued liabilities | \$ 1,937,170 | \$ 3,258,205 |
| Accrued vacation payable | 705,729 | 683,095 |
| Deferred compensation | 270,248 | 140,805 |
| Deferred revenue | 250,648 | 278,210 |
| Deferred rent | 6,910,709 | 5,872,836 |
| Total liabilities | 10,074,504 | 10,233,151 |
| Undesignated net assets | 67,811,054 | 57,564,027 |
| Designated technology renewal fund | 6,625,558 | 11,750,777 |
| Net assets — unrestricted | 74,436,612 | 69,314,804 |
| TOTAL | \$84,511,116 | \$79,547,955 |

See notes to financial statements.

STATEMENTS OF ACTIVITIES

| <i>For the years ended September 30, 2017 and 2016</i> | 2017 | 2016 |
|--|---------------------|---------------------|
| REVENUE: | | |
| Underwriting assessment fees, net of firm rebates of \$1.8 million in 2016 | \$11,629,582 | \$10,367,501 |
| Transaction fees, net of firm rebates of \$2.2 million in 2016 | 13,889,042 | 11,632,218 |
| Technology fees, net of firm rebates of \$1.5 million in 2016 | 7,950,238 | 5,576,543 |
| Annual and initial fees | 2,024,234 | 2,144,609 |
| Data subscriber fees | 1,882,413 | 1,833,931 |
| Municipal advisor professional fees | 1,196,700 | 1,225,200 |
| Rule violation fine revenue | 994,738 | 1,219,081 |
| Other income | 1,388,432 | 1,387,897 |
| Total Revenue | 40,955,379 | 35,386,980 |
| EXPENSES: | | |
| Market regulation and professional qualifications | 7,549,784 | 7,874,389 |
| Board of Directors | 1,642,087 | 1,620,405 |
| Market structure, transparency and operations | 17,550,521 | 17,387,940 |
| Market leadership, outreach and education | 3,336,510 | 2,843,055 |
| Executive leadership, finance, risk and administration | 5,754,669 | 5,861,381 |
| Total Expenses | 35,833,571 | 35,587,170 |
| CHANGE IN NET ASSETS | 5,121,808 | (200,190) |
| NET ASSETS — Beginning of year | 69,314,804 | 69,514,994 |
| NET ASSETS — End of year | \$74,436,612 | \$69,314,804 |

See notes to financial statements.

STATEMENTS OF CASH FLOWS

For the years ended September 30, 2017 and 2016

| | 2017 | 2016 |
|---|---------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$5,121,808 | \$ (200,190) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,133,849 | 4,215,115 |
| Net loss (gain) on sale and disposal of long-lived assets | 58,882 | (26,196) |
| Net amortization of investment premiums and discounts | 157,166 | 178,641 |
| Unrealized loss (gain) on investments | 363,522 | (52,712) |
| Realized loss on investments | 1,901 | 2,643 |
| Bad debt expense | 105,255 | 45,906 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 159,522 | (325,954) |
| Prepaid and other assets | (434,336) | 713,751 |
| Accrued interest receivable | (55,970) | 17,285 |
| Accounts payable and accrued liabilities | (1,321,035) | 1,602,911 |
| Accrued vacation payable | 22,634 | 709 |
| Deferred compensation | 129,443 | (188,802) |
| Deferred revenue | (27,562) | 4,791 |
| Deferred rent | 1,037,873 | 3,499,068 |
| Net cash provided by operating activities | 9,452,952 | 9,486,966 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sales of fixed assets | – | 30,741 |
| Purchases of fixed assets | (5,132,018) | (8,826,669) |
| Purchases of investments | (23,238,858) | (21,581,368) |
| Maturities of investments | 17,030,000 | 23,261,582 |
| Net cash used in investing activities | (11,340,876) | (7,115,714) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (1,887,924) | 2,371,252 |
| CASH AND CASH EQUIVALENTS, Beginning of year | 3,752,266 | 1,381,014 |
| CASH AND CASH EQUIVALENTS, End of year | \$1,864,342 | \$3,752,266 |
| SCHEDULE OF NONCASH INVESTING ACTIVITIES | | |
| Like-kind equipment exchange | \$ 2,500 | \$ 10,185 |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

1. NATURE OF OPERATIONS

The Municipal Securities Rulemaking Board (MSRB) was created by Congress under the 1975 Amendments to the Securities Exchange Act of 1934, and the authority of the MSRB was expanded by further amendments to the Exchange Act under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (as amended, the Exchange Act). The MSRB is incorporated as a not-for-profit, non-stock corporation pursuant to the laws of the Commonwealth of Virginia. Under the Exchange Act, the MSRB is a self-regulatory organization with authority to adopt rules regulating the municipal securities activities of brokers, dealers and municipal securities dealers, and the municipal advisory activities of municipal advisors (collectively referred to as “regulated entities”), to promote fair and efficient markets and to protect investors, municipal entities, obligated persons and the public interest. The MSRB collects and disseminates market information, operates the Electronic Municipal Market Access (EMMA[®]) website to promote transparency and widespread access to information, and also engages in significant education, outreach and market leadership activities.

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).

Fair Value Measurement — The MSRB measures fair value in accordance with the provisions of Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurement*, which provides a common definition of fair value for GAAP and International Financial Reporting Standards (IFRS), establishes a framework for measuring fair value, provides a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements.

Cash Equivalents — Highly liquid investments with maturities of three months or less at the date of purchase are considered to be cash equivalents.

Included in cash equivalents are short term money market mutual funds fully invested in securities backed by the full faith and credit of the United States (U.S.) Government with a total fair market value of \$1.1 million and \$2.9 million at September 30, 2017 and 2016, respectively.

Investments — Investments are stated at fair value. Investments consist of U.S. Treasury notes, obligations of U.S. Government sponsored entities that are fully guaranteed by the U.S. Government, certificates of deposit that are FDIC insured and 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 account reviews. Account balances are written off against the allowance once 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, cash equivalents, accounts receivable and investments. The MSRB maintains cash primarily in non-interest-bearing accounts with FDIC insurance up to \$250,000. MSRB investments are backed by the full faith and credit of the U.S. Government or its fully guaranteed government sponsored entities. Accounts receivable consist of fees due from regulated entities and data subscribers. 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. Five regulated entities accounted for approximately one-third of total fee revenue in fiscal year 2017 and fiscal year 2016.

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 2016 financial statements have been reclassified to conform to the fiscal year 2017 presentation. For fiscal year 2016 functional expense reporting, depreciation expense previously allocated based on salaries has been reallocated based on program services benefitted.

Fixed Assets — Computer and office equipment, as well as furniture and fixtures are recorded at cost and are depreciated using the straight-line method over three years and five years, respectively. Acquisition costs include all expenses necessary to prepare the asset for its intended purpose including direct labor related costs. 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.

Capitalized Software Costs — The MSRB capitalizes certain costs associated with computer software developed or obtained for internal use as part of the MSRB information systems. 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 this 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 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 deferred rent and recognized as a reduction to rent expense on a straight-line basis over the lease term.

Deferred Revenue — Data Subscriber revenue is recognized on a straight-line basis over the service period. Deferred revenue represents the portion of payments received applicable to future periods.

Functional Allocation of Expenses — The costs of providing the various organizational activities and programs have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs benefitted.

Reciprocal Transactions — The MSRB receives municipal credit ratings data for municipal securities in exchange for its data subscription service feeds. The revenue and expenses are recognized in the Statement of Activities at the same data subscription fee rate that other data subscribers pay for similar services. Revenue and expenses recognized totaled \$132,000 for the years ended September 30, 2017 and September 30, 2016.

Revenue Recognition:

Underwriting Assessment Fees — The underwriting assessment fee on municipal securities dealers acting as underwriters is required to be paid per Rule A-13 and is equal to \$0.0275 per \$1,000 of the par value of municipal securities purchased by underwriters from an issuer as part of a new issue, effective January 1, 2016. Prior to January 1, 2016, the underwriting assessment fee was \$0.03 per \$1,000 of the par value. 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. In fiscal year 2016, underwriting revenue is disclosed net of rebates of \$1.8 million. Rebates are determined at the discretion of the Board.

Transaction Fees — The transaction fee on municipal securities dealers is required to be paid per Rule A-13 and is \$0.01 per \$1,000 par value of bonds sold and is levied on both customer and interdealer transactions as specified in 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. In fiscal year 2016, transaction fees revenue is disclosed net of rebates of \$2.2 million. Rebates are determined at the discretion of the Board.

Technology Fees — The technology fee on municipal securities dealers is required to be paid per Rule A-13 and is \$1.00 per municipal security trade for all customer and interdealer sales transactions. As further described in Note 12, the Board has designated the use of the funds generated by these fees through December 31, 2015 to update, maintain and replace its technology systems.

Technology fee revenue is recognized as sales transactions are settled. In fiscal year 2016, technology fee revenue is disclosed net of rebates of \$1.5 million. Rebates are determined at the discretion of the Board.

Data Subscriber Fees — For a fee, the MSRB provides access to four electronic information systems that collect, store and provide information pertaining to the municipal securities market. The MSRB Primary Market Disclosure System includes official statements, advance refunding documents and related data. The MSRB Continuing Disclosure System includes continuing disclosure documents and related data from municipal securities issuers, obligated persons and their agents. The Real Time Transaction Reporting System covers data on all municipal securities transactions for purposes of price transparency and surveillance. Finally, the Short-term Obligation Rate Transparency System covers short-term obligation rate reset data and related documents. Information processed by these systems is sold to subscribers on an annual basis with revenue recognized straight-line over the period of service. In addition, the MSRB sells annual historical collections of information from these systems, with the fee billed and recognized at the time of purchase.

Municipal Advisor Professional Fees — Each municipal advisor that is registered with both the SEC and the MSRB is required to pay an annual per professional fee of \$300 per Rule A-11.

Annual and Initial Fees — With respect to each fiscal year of the MSRB in which a regulated entity conducts business, the regulated entity is required to pay an annual fee of \$1,000 per Rule A-12. Revenue is recognized when regulated entities are billed annually in October, or when received upon initial registration with the MSRB to conduct business. The initial fee is a onetime fee of \$1,000 which is to be paid by every regulated entity upon registration with the MSRB under Rule A-12. Initial fee revenue is recognized when received.

Rule Violation Fee Revenue — The Dodd-Frank Act provides 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. Fine revenue is recorded in the month earned.

Professional Qualification Examination Fees — Rule A-16 establishes the examination fee on persons taking certain qualification examinations of \$150 per exam. 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).

As part of its expanded mandate under the Dodd-Frank Act, the MSRB amended its Rule G-3 on professional qualifications to establish the requirement that all municipal advisor professionals take and pass a qualifying exam. The pilot Series 50 (Municipal Advisor Representative Qualification Examination) exam was available from January 15, 2016 through February 15, 2016. The permanent Series 50 exam was made available September 12, 2016.

Professional qualification examination fees, including pilot examination fees, are recognized in the month the exams are given and totaled \$623,700 and \$493,645 for the years ended September 30, 2017 and 2016, respectively. Professional qualification examination fees are included in other income in the accompanying statements of activities.

New Accounting Pronouncements:

In March 2017, the FASB issued Accounting Standards Update (ASU) 2017-08: Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium and require the premium to be amortized to the earliest call date. Securities held at a discount continue to be amortized to maturity. This standard is effective for the fiscal year ending September 30, 2020, with early adoption permitted. The MSRB elected early adoption of this standard. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to unrestricted net assets as of the beginning of the period of adoption. In addition, adoption of the amendments are to be disclosed as a change in accounting principle. Fiscal year 2017 is the first year the MSRB was approved to invest in callable U.S. Government sponsored agency securities. As a result, there is no cumulative-effect adjustment from the early adoption and the change in accounting principle did not have a significant impact on the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the guidance in former Accounting Standards Codification (ASC) (Topic 840) Leases. The most significant change will result in the recognition of lease assets for the right to use the underlying asset, and lease liabilities for the obligation to make lease payments by lessees, for those leases classified as operating leases under current guidance. The new guidance will also require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. This standard is effective for the fiscal year ending September 30, 2021, with early adoption permitted. Upon adoption of ASU 2016-02, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The MSRB believes adoption of this standard will have a significant impact on the statements of financial position and is evaluating the impact this ASU will have on the statements of activities and cash flows.

In August 2016, the FASB issued ASU 2016-14 to Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends several requirements for financial statements and notes, including net asset classifications in the statements of financial position and statements of activities and enhanced disclosures in numerous areas. This standard is effective for the fiscal year ending September 30, 2019, with early adoption permitted. The MSRB is evaluating the impact this ASU will have on the financial statement presentation.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. This standard is effective for the fiscal year ending September 30, 2019, with early adoption permitted. The MSRB is evaluating the impact this ASU will have on the financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this update supersedes the revenue recognition requirements in Topic 605 explaining that an entity should recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for the fiscal year ending September 30, 2018. The MSRB believes adoption of this standard will not have a significant impact on the statements of activities.

3. INVESTMENTS

Investments as of September 30, 2017 and 2016, consist of the following:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Government-guaranteed agency securities | \$34,055,879 | \$32,432,830 |
| U.S. treasury notes | 16,108,027 | 10,842,489 |
| Certificates of deposit | 11,369,211 | 12,715,373 |
| Mutual funds — target date index fund | 270,626 | 126,782 |
| | \$61,803,743 | \$56,117,474 |

Government-guaranteed agency securities include Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds, government sponsored entities fully guaranteed by the U.S. Government.

In September 2014, a letter of credit in the amount of \$130,000 was accepted as a security deposit by the landlord under the terms of the new office lease in Washington, D.C. The MSRB purchased a certificate of deposit for the same amount to collateralize the letter of credit. This holding is included in certificates of deposit and is valued at \$133,296 and \$130,000, September 30, 2017 and 2016, respectively.

Investment return for the years ended September 30, 2017 and 2016 is included in other income in the accompanying Statements of Activities and consists of the following:

| | 2017 | 2016 |
|------------------------|------------------|------------------|
| Interest and dividends | \$664,541 | \$490,959 |
| Unrealized gains | (363,522) | 52,712 |
| Realized losses | (1,901) | (2,643) |
| | \$299,118 | \$541,028 |

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, 2017 and 2016 because of the relatively short duration of these instruments.

The MSRB's policy uses the GAAP framework for measuring fair value which 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 reflects 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.

The MSRB's Level 2 investments include U.S. treasury notes, obligations of U.S. government sponsored entities fully guaranteed by the U.S. Government and certificates of deposit.

The MSRB bases the fair value on pricing obtained from the MSRB's investment brokers. The MSRB does not adjust for or apply any additional assumptions or estimates to the pricing information it receives from its brokers. The brokers' pricing is compared to industry standard data providers or current yields available on comparable securities 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, 2017 and 2016, based on the following levels of hierarchy:

| 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|-----------|--------------|---------|--------------|
| Government-guaranteed agency securities | \$ – | \$34,055,879 | \$ – | \$34,055,879 |
| U.S. treasury notes | – | 16,108,027 | – | 16,108,027 |
| Certificates of deposit | – | 11,369,211 | – | 11,369,211 |
| Mutual funds | 270,626 | – | – | 270,626 |
| | \$270,626 | \$61,533,117 | \$ – | \$61,803,743 |

| 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|-----------|--------------|---------|--------------|
| Government-guaranteed agency securities | \$ – | \$32,432,830 | \$ – | \$32,432,830 |
| Certificates of deposit | – | 12,715,373 | – | 12,715,373 |
| U.S. treasury notes | – | 10,842,489 | – | 10,842,489 |
| Mutual funds | 126,782 | – | – | 126,782 |
| | \$126,782 | \$55,990,692 | \$ – | \$56,117,474 |

5. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2017 and 2016 consist of the following:

| | 2017 | 2016 |
|--------------------------------------|-------------|-------------|
| Billed accounts receivable | \$4,077,607 | \$3,786,629 |
| Unbilled accounts receivable | 1,656,461 | 1,914,856 |
| Insurance recovery receivable | – | 253,811 |
| | 5,734,068 | 5,955,296 |
| Less allowance for doubtful accounts | (137,928) | (94,379) |
| | \$5,596,140 | \$5,860,917 |

Unbilled receivables at September 30, 2017 and 2016 consist primarily of September transaction and technology fees revenue billed in early October. September 30, 2016 includes the recognition of an insurance recovery with the credit included in Other Income on the Statements of Activities.

6. PREPAID AND OTHER ASSETS

Prepaid and other assets as of September 30, 2017 and 2016 consist of the following:

| | 2017 | 2016 |
|----------------|-------------|-------------|
| Prepaid assets | \$1,449,651 | \$1,014,699 |
| Deposits | 11,015 | 11,631 |
| | \$1,460,666 | \$1,026,330 |

7. FIXED ASSETS

Fixed assets as of September 30, 2017 and 2016 consist of the following:

| | 2017 | 2016 |
|---|--------------|--------------|
| Capitalized software costs | \$35,040,036 | \$30,489,863 |
| Computer and office equipment | 5,009,614 | 4,973,274 |
| Leasehold improvements | 4,040,651 | 4,033,851 |
| Furniture and fixtures | 1,713,424 | 1,713,424 |
| | 45,803,725 | 41,210,412 |
| Less accumulated depreciation and amortization: | | |
| Capitalized software costs | (27,479,390) | (25,374,963) |
| Computer and office equipment | (3,593,878) | (2,686,844) |
| Leasehold improvements | (567,601) | (263,276) |
| Furniture and fixtures | (649,475) | (311,235) |
| | (32,290,344) | (28,636,318) |
| | \$13,513,381 | \$12,574,094 |

Depreciation expense and amortization expense during fiscal years 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|-------------|-------------|
| Depreciation expense | \$1,641,730 | \$1,556,575 |
| Amortization expense for capitalized software cost and leasehold improvements | 2,492,119 | 2,658,540 |
| | \$4,133,849 | \$4,215,115 |

Impairment of long-lived assets — Through regular review of long-lived assets, in fiscal year 2017 and 2016 no estimated impairment loss was recognized.

Leasehold improvements — In conjunction with the Washington, D.C. lease, the landlord provided up to \$4.4 million in landlord incentives, of which \$4.03 million funded leasehold improvements, and \$323,000 offset future rent payments.

Capitalized software costs — For the years ended September 30, 2017 and 2016, \$3.7 million and \$2.1 million, respectively, of internally developed work-in-process costs for software not yet implemented are included in capitalized software costs.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of September 30, 2017 and 2016 consist of the following:

| | 2017 | 2016 |
|---------------------------------------|-------------|-------------|
| Accounts payable and accrued expenses | \$1,294,129 | \$2,359,361 |
| Salaries, taxes and benefits payable | 643,041 | 898,844 |
| | \$1,937,170 | \$3,258,205 |

The September 30, 2016 accounts payable and accrued expenses include \$1.6 million of rebates and balances due to regulated entities.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases — The MSRB leases office space under operating lease arrangements. The MSRB moved to new office space in Washington, D.C. in December 2015 and the lease will expire in fiscal year 2031. The MSRB determined to move its office into Washington, D.C. at the expiration of the Alexandria, Virginia lease, which ended March 31, 2016.

These leases contain escalation clauses based on increases in rent and building operating costs. Rent expense is recognized on a straight-line basis over the term of the respective lease and is credited or charged to deferred rent as appropriate, which is included in liabilities in the accompanying statements of financial position. Total rent expense for operating leases for the years ended September 30, 2017 and 2016 was \$1,794,770 and \$2,545,060, respectively.

The MSRB has lease agreements for website hosting, business continuity and disaster recovery. Total lease payments under these operating leases for the years ended September 30, 2017 and 2016, were \$484,879 and \$507,582, respectively.

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

| Years Ending September 30 | |
|------------------------------|--------------|
| 2018 | \$ 2,067,907 |
| 2019 | 1,935,257 |
| 2020 | 1,695,466 |
| 2021 | 1,737,833 |
| 2022 | 1,781,172 |
| 2023 and beyond | 17,048,915 |
| Total minimum lease payments | \$26,266,550 |

Employment Agreements — In accordance with the executive director's employment agreement, a 457(f) deferred compensation plan is maintained and annual contributions as defined by the agreement are made. Contributions and the related earnings and interest vest at certain interval dates. As of September 30, 2017 and 2016, the MSRB has recorded a deferred compensation liability related to the 457(f) plan of \$270,248 and \$126,222, respectively.

10. RETIREMENT PLAN

The MSRB has a defined contribution retirement plan for all employees. Participation commences upon date of hire 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. The contribution percentage ranges from 7% to 9% depending on the length of vested service as set forth 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 \$1,081,450 and \$989,279 for the years ended September 30, 2017 and 2016, respectively.

All administrative expenses of the plan are paid by the MSRB. Administrative expenses total \$4,937 and \$4,000 for the years ended September 30, 2017 and 2016, respectively.

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 and District of Columbia. The MSRB files an annual informational tax form, Form 990, with the Internal Revenue Service. The MSRB realized no unrelated business income in fiscal years 2017 and 2016 and no provision for income taxes has been made as of September 30, 2017 and 2016.

The MSRB addresses uncertain tax positions in accordance with ASC Topic 740, Income Taxes, which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements. During the years from 2014 to 2017, which represent the years management considers to be open for examination by taxing authorities, management did not identify the existence of any uncertain tax position.

12. BOARD DESIGNATED NET ASSETS

With the establishment of the technology fee on January 1, 2011, a Board designated technology renewal fund was created 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 information technology capital expenses. Effective January 1, 2016, technology fees earned are no longer credited to the Board designated technology renewal fund.

| | 2017 | 2016 |
|---|--------------|--------------|
| Designated technology renewal fund - balance beginning of year | \$11,750,777 | \$16,515,496 |
| Technology fees, net of technology rebates of \$1.5 million in 2016 | – | 200,467 |
| Technology capital expenditures | (5,125,219) | (4,965,186) |
| Designated technology renewal fund | \$ 6,625,558 | \$11,750,777 |

13. SUBSEQUENT EVENTS

The MSRB evaluated its September 30, 2017 financial statements for subsequent events through December 15, 2017, 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.

In May 2018, as part of the organization's continuous effort to fairly allocate fees across regulated entities benefiting from operating in the municipal market, the MSRB is introducing a new revenue source. Underwriters to 529 college savings plans will begin paying an annual underwriting fee on total aggregate plan assets. The MSRB also is raising the amount of the annual professional fee on municipal advisors from \$300 to \$500, which will be due in April 2018.



CORPORATE OFFICE
Municipal Securities
Rulemaking Board
1300 I Street NW, Suite 1000
Washington, DC 20005
202-838-1500

MSRB SUPPORT
202-838-1330
MSRBsupport@msrb.org

ONLINE
msrb.org
emma.msrb.org
Twitter: @MSRB_News