

Audited Financial Statements
STATE REGULATORY REGISTRY LLC
December 31, 2009

State Regulatory Registry LLC

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T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report

To the Board of Managers
State Regulatory Registry LLC

We have audited the accompanying statements of financial condition of State Regulatory Registry LLC (SRR), a limited liability company whose sole member is the Conference of State Bank Supervisors, Inc., as of December 31, 2009 and 2008, and the related statements of operations and owner's equity and cash flows for the years then ended. These financial statements are the responsibility of SRR'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 audits 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 State Regulatory Registry LLC as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC
April 14, 2010

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State Regulatory Registry LLC

Statements of Financial Condition

<i>December 31,</i>	2009	2008
Assets		
Cash and cash equivalents	\$ 1,835,212	\$ 1,436,951
Accounts receivable, net of allowance for doubtful accounts of \$1,514 and \$3,000 for 2009 and 2008, respectively	837,371	660,590
Prepaid expenses	7,500	-
Property and equipment, net - Note C	12,137,329	8,312,444
Capitalized test development costs, net - Note D	1,122,840	-
Total assets	\$ 15,940,252	\$ 10,409,985
Liabilities and Owner's Equity		
Liabilities		
Accounts payable	\$ 3,386,332	\$ 2,250,891
Due to related party - Note B	1,640	5,333
Deferred revenue	900,196	239,250
Lines of credit payable to others - Note E	4,994,763	1,522,455
Lines of credit payable to related parties - Note B	3,779,684	4,182,429
Total liabilities	13,062,615	8,200,358
Commitments - Note F	-	-
Owner's equity		
Retained earnings	2,877,637	2,209,627
Total liabilities and owner's equity	\$ 15,940,252	\$ 10,409,985

State Regulatory Registry LLC

Statements of Operations and Owner's Equity

Year Ended December 31,	2009	2008
Mortgage licensing database:		
Licensing system processing fees	\$ 6,359,596	\$ 6,274,941
Database development support	5,876,896	2,991,500
Test administration fees	3,110,712	-
Education course and credit banking fees	839,566	-
Training course registration fees	138,230	42,806
Nondepository dues - Note B	-	284,688
Operating expense - Note B	(14,826,244)	(9,970,652)
Gross profit from mortgage licensing database	1,498,756	(376,717)
Interest income	972	11,280
Other income	800	-
General and administrative expense - Note B	(682,518)	(281,814)
Grant to affiliate - Note B	(150,000)	-
Net income (loss)	668,010	(647,251)
Owner's equity, beginning of year	2,209,627	2,856,878
Owner's equity, end of year	\$ 2,877,637	\$ 2,209,627

State Regulatory Registry LLC

Statements of Cash Flows

<i>Year Ended December 31,</i>	2009	2008
Cash flows from operating activities		
Net income	\$ 668,010	\$ (647,251)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,742,921	966,245
(Decrease) increase in allowance for doubtful accounts	(1,486)	3,000
Changes in assets and liabilities:		
Accounts receivable	(175,295)	(663,590)
Due from related party	-	154,998
Prepaid expenses	(7,500)	-
Accounts payable	1,135,441	2,231,862
Due to related party	(3,693)	3,766
Deferred revenue	660,946	(293,000)
Total adjustments	3,351,334	2,403,281
Net cash provided by operating activities	4,019,344	1,756,030
Cash flows from investing activities		
Purchases of property and equipment	(5,470,046)	(4,081,228)
Costs paid in developing tests	(1,220,600)	-
Purchases of investments	-	(701,191)
Proceeds from the sale of investments	-	702,049
Net cash used in investing activities	(6,690,646)	(4,080,370)
Cash flows from financing activities		
Proceeds borrowed from lines of credit with others	5,472,308	1,522,455
Payments on line of credit balances with others	(2,000,000)	-
Proceeds borrowed from lines of credit with related parties	84,209	2,183,077
Payments on line of credit balances with related parties	(486,954)	-
Net cash provided by financing activities	3,069,563	3,705,532
Net increase in cash and cash equivalents	398,261	1,381,192
Cash and cash equivalents, beginning of year	1,436,951	55,759
Cash and cash equivalents, end of year	\$ 1,835,212	\$ 1,436,951

See notes to the financial statements.

State Regulatory Registry LLC

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: State Regulatory Registry LLC (SRR) was formed in the District of Columbia in September 2006 to develop and operate the Nationwide Mortgage Licensing System (NMLS) as a mortgage licensing database for use by state government regulators and by the public, and to design uniform systems, applications, and procedures for adoption by participating state government regulators.

SRR is a single-member limited liability company owned entirely by the Conference of State Bank Supervisors, Inc. (the Conference). The Conference was founded in 1902 as a nonprofit organization. The primary purpose of the Conference is to assure the ability of each state banking authority to provide safe, sound, and well-regulated financial institutions to meet the unique financial needs of local economies and their citizens. Its members are public entities who charter, regulate, and supervise state-chartered banks of the United States. State bankers are also members.

Income taxes: As a single-member limited liability company, SRR is treated as a disregarded entity for income tax purposes. Thus, SRR's financial activity is reported in conjunction with the Federal income tax filings of the Conference.

During the year ended December 31, 2009, SRR adopted the accounting standard related to uncertain income tax positions. The standard requires that an uncertain income tax position must be more likely than not (greater than 50% likelihood) before it is recognized in the financial statements. Furthermore, the standard requires that the amount recognized be the same as that which would be determined as a result of a review by tax authorities having all relevant information and applying current conventions. The standard also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. During the years from 2006 through 2009, which represent the years management considers to be open for examination by taxing authorities, management did not identify the existence of any uncertain income tax positions.

Basis of accounting: SRR prepares its financial statements on the accrual basis of accounting. As such, revenue is recognized when earned and expenses when the underlying obligations are incurred.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, SRR considers all highly liquid investments with an original maturity of three months or less that are not held in investment accounts to be cash equivalents.

SRR maintains its cash in demand deposit and overnight treasury fund sweep accounts with a commercial bank. Certain balances held within these accounts are not always fully guaranteed or insured by the U.S. federal government. SRR has not experienced any such losses in the past, and does not believe it is exposed to any significant financial risk on these cash balances.

State Regulatory Registry LLC

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts receivable: Accounts receivable consist primarily of NMLS processing fees for system transactions pending final processing by the bank, education course and credit banking fees, and registration fees for user training courses. Accounts receivable are presented at the net amount due to SRR (i.e., gross amount less allowance, if any). SRR's management periodically reviews the status of all accounts receivable balances for collectibility. Each receivable balance is assessed based on management's knowledge of the customer, SRR's relationship with the customer, and the age of the receivable balance. SRR has established an allowance for doubtful accounts to estimate the portion of receivables that will not be collected. This allowance is regularly reviewed by management.

Deferred revenue: Deferred revenue consists of NMLS processing fees paid in advance to SRR by certain participating states, system development support from several states received prior to the incurrence of contractual development costs for the NMLS, and training course registration fees received in advance of the seminars.

Subsequent events: Subsequent events have been evaluated through April 14, 2010.

B. RELATED PARTY TRANSACTIONS

Due to related party: Due to related party amounts are typically composed of SRR expenses paid by the Education Foundation of State Bank Supervisors (the Foundation). At December 31, 2009 and 2008, SRR owed the Foundation \$1,640 and \$5,333, respectively.

Lines of credit payable: During 2007, the Boards of the Conference and SRR orally agreed to terms of a line of credit that the Conference would extend to SRR in order to support SRR general operations, such as salary and administrative costs, prior to SRR being able to generate positive cash flows from database operations. Under the agreed-upon terms of the line of credit, the Conference will advance up to \$3,500,000 to SRR. The line of credit does not have a maturity date, nor are there any specified repayment terms for amounts borrowed under the line of credit. Interest on the outstanding borrowed balance began accruing in 2007 and was compounded monthly at a fixed rate of six percent and eight percent for the years ended December 31, 2009 and 2008, respectively, as agreed to by the Boards of each organization. The total amount borrowed and outstanding under the line of credit, including accrued interest payable to the Conference, was \$2,673,923 and \$3,160,877 at December 31, 2009 and 2008, respectively. Interest expense amounted to \$182,087 and \$230,347 for the years ended December 31, 2009 and 2008, respectively.

On September 17, 2008, SRR entered into a line of credit with the Foundation. Under the terms of the line of credit agreement, SRR may borrow up to \$1,000,000 without any restrictions as to how the borrowed funds are used by SRR. There are no specific repayment requirements on outstanding balances, but all borrowed amounts must be repaid by December 31, 2012, unless the term is extended by the Foundation. Interest is assessed at a variable rate based on the U.S. prime rate published in the Wall Street Journal at January 1st of each year, and the prime rate at January 1 remains in effect for the following calendar year. Interest compounds on a quarterly basis on the outstanding balance of the line. For each of the years ended December 31, 2009 and 2008, the interest rate was established at eight percent. The total amount borrowed and outstanding under the line of credit, including accrued interest payable to the Foundation, was \$1,105,761 and \$1,021,552 at December 31, 2009 and 2008, respectively. Interest expense from the line of credit amounted to \$84,209 to \$21,552 for the years ended December 31, 2009 and 2008, respectively.

State Regulatory Registry LLC

Notes to the Financial Statements

B. RELATED PARTY TRANSACTIONS - CONTINUED

Nondepository dues revenue: The Conference established an additional, voluntary dues assessment of its members on their nondepository service operations which the Conference earmarked for use in supporting the general operations of SRR during 2008. During the year ended December 31, 2008, members of the Conference paid a total of \$284,688 of these voluntary nondepository dues which the Conference, in turn, remitted to SRR. However, during 2009, the Conference's Board of Directors decided to use these nondepository dues to support its own operations rather than the operations of SRR, and as such, did not transfer any of these voluntary dues to SRR during the year ended December 31, 2009.

Grant to affiliate: In previous years, the Conference has given an annual unconditional grant to support the educational operations of the Foundation. In 2009, it was agreed by the Boards of the Conference and SRR that the two organizations would share this grant to the Foundation. As such, for the year ended December 31, 2009, SRR's share of this educational grant to the Foundation was \$150,000.

Expense allocations: The Conference pays the payroll costs of SRR employees, and these costs are directly charged to SRR. However, certain other costs are allocated by the Conference to each of its departments and related entities. Benefit costs, such as health insurance premiums and pension plan costs, are allocated on the basis of each department's or entity's percentage of total salaries. As a result of SRR's share of this allocation, the Conference allocated \$551,002 and \$560,676 of its benefit costs to SRR for the years ended December 31, 2009 and 2008, respectively. This allocation of benefits included \$87,143 and \$395,558 of pension-related charges other than net periodic pension costs for the years ended December 31, 2009 and 2008, respectively. These allocated benefit costs are included within SRR's operating expense amount on the statements of operations and owner's equity.

Administrative and overhead costs, such as rent for SRR's portion of office space, are allocated on the basis of the percentage of office space each department's or entity's employees occupy at the Conference's DC office. As a result of SRR's share of this allocation, the Conference allocated \$682,518 and \$281,814 of its administrative overhead costs to SRR for the years ended December 31, 2009 and 2008, respectively.

C. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$1,000 are recorded at cost. The capitalized development costs of the NMLS began amortizing when the system went live on January 2, 2008, and they are being amortized over the system's estimated useful life of seven years. The capitalized development costs of each subsequent update release version begins amortizing when the release becomes operational, and will be amortized over the estimated useful lives of each release, which are also determined to be seven years. The capitalized purchase costs of the PULSE educational system component began amortizing when the system became operational on July 1, 2009, and they are being amortized over a three-year term. The capitalized purchase costs of the Cogent Background Check Automation System will begin amortizing once the system component becomes operational, which has not yet occurred. During the years ended December 31, 2009 and 2008, SRR recognized \$1,645,161 and \$966,245, respectively, of depreciation expense related to capitalized software costs.

State Regulatory Registry LLC

Notes to the Financial Statements

C. PROPERTY AND EQUIPMENT - CONTINUED

Net property and equipment consisted of the following at December 31,:

	2009	2008
Nationwide Mortgage Licensing System (NMLS)	\$13,795,018	\$ 9,278,689
PULSE educational system component	631,741	-
Cogent Background Check Automation System	321,976	-
	<u>14,748,735</u>	<u>9,278,689</u>
Less accumulated depreciation	<u>(2,611,406)</u>	<u>(966,245)</u>
Total property and equipment, net	<u>\$12,137,329</u>	<u>\$ 8,312,444</u>

D. CAPITALIZED TEST DEVELOPMENT COSTS

In order to address provisions of the Secure and Fair Enforcement of Mortgage Licensing Act of 2008, SRR has developed a national test as well as unique state-specific tests which all mortgage loan originators registering on the NMLS are required to take. SRR is amortizing these test development costs over an estimated useful life of five years. During the years ended December 31, 2009 and 2008, SRR recognized \$97,760 and \$0, respectively, of amortization expense.

Net capitalized test development costs consisted of the following at December 31,:

	2009	2008
National test	\$ 545,600	\$ -
State-specific tests	675,000	-
	<u>1,220,600</u>	<u>-</u>
Less accumulated amortization	<u>(97,760)</u>	<u>-</u>
Total capitalized test development costs, net	<u>\$ 1,122,840</u>	<u>\$ -</u>

E. LINES OF CREDIT PAYABLE TO OTHERS

On February 5, 2008, SRR entered into a line of credit with the Financial Industry Regulatory Authority, Inc. (FINRA), an unrelated party. Under the terms of the line of credit agreement, SRR was permitted to borrow up to \$3,500,000 (including accrued interest) for use in funding the development and hosting costs of its mortgage licensing database. Effective March 10, 2009, FINRA amended its line of credit to allow SRR to borrow up to \$10,000,000 (including accrued interest). There are no specific repayment requirements on outstanding balances, but all borrowed amounts must be repaid by December 31, 2010, unless the term is extended by FINRA.

State Regulatory Registry LLC

Notes to the Financial Statements

E. LINES OF CREDIT PAYABLE TO OTHERS - CONTINUED

For the years ended December 31, 2009 and 2008 interest was assessed at 6% and 8%, respectively. From January 1, 2010 onward, interest is assessed at a variable rate based on the U.S. prime rate published in the Wall Street Journal at January 1st of each year plus 2%, and compounds on a quarterly basis on the outstanding balance of the line. The interest rate at January 1 remains in effect for the remainder of the calendar year.

At December 31, 2009 and 2008, the amount borrowed and outstanding by SRR, including accrued interest, totaled \$4,774,182 and \$1,318,672, respectively. Interest expense related to the line of credit totaled \$228,624 and \$102,782 for the years ended December 31, 2009 and 2008, respectively.

As a condition of securing the line of credit from FINRA, CSBS agreed to enter into a separate guaranty agreement with FINRA to guarantee the repayment of amounts borrowed by SRR under the line of credit.

On August 18, 2008, SRR entered into a line of credit with the American Association of Residential Mortgage Regulators (AARMR), an unrelated party. Under the terms of the line of credit agreement, SRR may borrow up to \$200,000 (excluding accrued interest) for use in funding the development and operation of its mortgage licensing database. There are no specific repayment requirements on outstanding balances, but all borrowed amounts must be repaid by December 31, 2012, unless the term is extended by AARMR. During both of the years ended December 31, 2009 and 2008, interest was assessed at 8%. From January 1, 2010 onward, interest is assessed at a variable rate based on the U.S. prime rate published in the Wall Street Journal at January 1st of each year, and compounds on a quarterly basis on the outstanding balance of the line. The prime rate at January 1 remains in effect for the remainder of the calendar year. At December 31, 2009 and 2008, the amount borrowed and outstanding by SRR, including accrued interest, totaled \$220,581 and \$203,783, respectively. Interest expense from the line of credit totaled \$16,798 and \$3,783 for the years ended December 31, 2009 and 2008, respectively.

F. COMMITMENT

The development of the NMLS and its update releases is performed by FINRA. During 2009, FINRA was also contracted to provide development support for the NMLS' education and testing components. Under the amended terms of these contracts with this other organization, management projects it will be responsible for costs of approximately \$5.5 million during 2010.