Audited Financial Statements

STATE REGULATORY REGISTRY LLC

December 31, 2013

State Regulatory Registry LLC

Contents

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&
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Independent Auditor's Report

To the Board of Managers
State Regulatory Registry LLC

We have audited the accompanying financial statements of State Regulatory Registry LLC (SRR), a limited liability company whose sole member is the Conference of State Bank Supervisors, Inc., which comprise the statements of financial condition as of December 31, 2013 and 2012, and the related statements of operations and owner's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to SRR'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 SRR'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 State Regulatory Registry LLC as of December 31, 2013 and 2012, 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.

Tate & Tryon

Washington, DC
May 5, 2014

State Regulatory Registry LLC

Statements of Financial Condition

December 31,	2013	2012
Assets		
Cash and cash equivalents	**$ 40,804,498**	$ 35,040,028
Accounts receivable, net of allowance for doubtful accounts of $17,670 and $10,089 for 2013 and 2012, respectively	**1,878,110**	2,093,946
Investments	**9,970,425**	-
Prepaid expenses and other	**113,978**	-
Due from related party, net	-	327,600
NMLS development costs, net	**20,851,489**	21,009,787
Capitalized test development costs, net	**463,721**	1,270,935
Total assets	**$ 74,082,221**	$ 59,742,296

Liabilities and Owner's Equity		
Liabilities		
Accounts payable and accrued expenses	**$ 6,398,492**	$ 7,517,120
Deferred revenue	**827,685**	830,447
Due to related party, net	**20,816**	-
Total liabilities	**7,246,993**	8,347,567
Owner's equity		
Retained earnings - undesignated	**25,143,403**	23,870,789
Retained earnings - designated for reserves and development	**41,691,825**	27,523,940
Total owner's equity	**66,835,228**	51,394,729
Total liabilities and owner's equity	**$ 74,082,221**	$ 59,742,296

See notes to the financial statements.

State Regulatory Registry LLC

Statements of Operations and Owner's Equity
Year ended December 31, 2013
(With comparative totals for the year ended December 31, 2012)

	2013			
	Operations (Undesignated)	Designated for reserves and development	2013	2012
Revenue				
NMLS processing fees	$ 28,975,310	$ 9,658,437	**$ 38,633,747**	$ 33,880,855
NMLS professional services	18,721,344	6,240,448	**24,961,792**	24,790,614
NMLS state development contributions	26,000		**26,000**	270,000
Registration fees	144,285		**144,285**	111,120
Investment loss	(23,197)		**(23,197)**	-
Total revenue	47,843,742	15,898,885	**63,742,627**	59,052,589
Expenses				
Program expenses				
NMLS professional services	14,483,636		**14,483,636**	16,850,410
NMLS system operations	14,125,884		**14,125,884**	15,819,209
NMLS - call center	5,152,798		**5,152,798**	5,344,996
Grants to Education Foundation	470,472		**470,472**	150,000
Professional services - legal, audit & other	1,727,298		**1,727,298**	880,747
Staff, board & member travel/meetings	880,718		**880,718**	472,690
Total program expenses	36,840,806	-	**36,840,806**	39,518,052
Staffing & administrative expenses				
Salaries and benefits	7,015,958		**7,015,958**	5,604,202
Rent and occupancy	852,913		**852,913**	853,111
Technology & general office	1,861,451		**1,861,451**	1,444,844
Total staffing & administrative expenses	9,730,322	-	**9,730,322**	7,902,157
Total expenses	46,571,128	-	**46,571,128**	47,420,209
Net change before other expense	1,272,614	15,898,885	**17,171,499**	11,632,380
Final pension settlement expense			**-**	(264,033)
Accrued loss on contingent liability		(1,731,000)	**(1,731,000)**	-
Change in net assets	1,272,614	14,167,885	**15,440,499**	11,368,347
Owner's equity, beginning of year	23,870,789	27,523,940	**51,394,729**	40,026,382
Owner's equity, end of year	$ 25,143,403	$ 41,691,825	**$ 66,835,228**	$ 51,394,729

State Regulatory Registry LLC

Statements of Cash Flows

Year Ended December 31,	2013	2012
Cash flows from operating activities		
Net income	**$ 15,440,499**	$ 11,368,347
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation and amortization	**5,549,175**	4,875,883
Loss on disposal of capitalized costs	**356,348**	-
Increase in allowance for doubtful accounts	**7,581**	709
Loss on investments, net	**142,042**	-
Changes in assets and liabilities:		
Accounts receivable	**208,255**	(294,433)
Prepaid expenses	**(113,978)**	-
Accounts payable and accrued expenses	**(1,118,628)**	791,390
Due to related party	**348,416**	(1,230,264)
Deferred revenue	**(2,762)**	(11,862)
Total adjustments	**5,376,449**	4,131,423
Net cash provided by operating activities	**20,816,948**	15,499,770
Cash flows from investing activities		
Purchases of NMLS systems and development	**(4,901,103)**	(5,358,282)
Purchases of investments	**(10,112,467)**	-
Costs paid in developing tests	**(38,908)**	(136,081)
Net cash used in investing activities	**(15,052,478)**	(5,494,363)
Net increase in cash and cash equivalents	**5,764,470**	10,005,407
Cash and cash equivalents, beginning of year	**35,040,028**	25,034,621
Cash and cash equivalents, end of year	**$ 40,804,498**	$ 35,040,028
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	**$ 67,901**	**$ 82,204**

See notes to the financial statements.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The State Regulatory Registry LLC (SRR) is a nonprofit entity that operates the Nationwide Mortgage Licensing System and Registry (NMLS) on behalf of state financial services regulatory agencies. SRR is governed by an eight-member Board of Managers comprised of state banking and financial regulators and a representative of the American Association of Residential Mortgage Regulators (AARMR). The SRR Board of Managers is responsible for all development, operations, and policy matters concerning NMLS.

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.

NMLS is a web-based system that allows state-licensed non-depository companies, branches, and individuals in the mortgage, consumer lending, money services businesses, and debt collection industries to apply for, amend, update, or renew a license online for all participating state agencies using a single set of uniform applications. Mortgage loan originators employed by insured depository institutions are also registered through NMLS. NMLS brings greater uniformity and transparency to these non-depository financial services industries while maintaining and strengthening the ability of state regulators to monitor these industries and protect their citizens. NMLS began operation on January 2, 2008. All individual mortgage loan originators are represented in the system.

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.

SRR believes that it has appropriate support for income tax positions taken. Therefore, management has not identified any uncertain tax positions. Generally, income tax returns related to the years from 2010 through 2013 are considered to be open for examination by taxing authorities.

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.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

SRR is a temporary custodian of funds collected from mortgage licensees who use NMLS. These funds are not recorded on SRR's balance sheet. The funds are held in a banking/sweep account for approximately eight days in order to assure that funds collected through ACH and credit card charges have time to clear the banking system; then SRR remits the collected funds to the appropriate states and transfers the portion belonging to SRR as a processing fee to its own operating account. Cash balances held within the bank and sweep accounts were $6,380,771 and $5,884,616 as of December 31, 2013 and 2012, respectively.

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.

Owner's equity: SRR has designated a portion of its owner's equity as a reserve for the continued future maintenance and upgrading of NMLS.

Subsequent events: Subsequent events have been evaluated through May 5, 2014, which is the date the financial statements were available to be issued.

B. CREDIT AND MARKET RISK

Cash: SRR maintains demand deposits and overnight treasury fund sweep accounts with commercial banks. At times, certain balances held within these accounts may not be 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.

Investments: SRR invests funds in mutual funds and exchange-traded funds (ETFs). Such investments are exposed to market and credit risks. Thus, SRR's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in these financial statements may not be reflective of the portfolio's value during subsequent periods.

C. Investments and Fair Value Measurements

SRR has implemented the accounting standard regarding fair value measurements. The standard defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

During the year ended December 31, 2013, SRR purchased various investments. Previously, all liquid assets had been held in cash equivalents. The following is a summary of the input levels used to determine fair values, measured on a recurring basis, of the investment assets at December 31, 2013:

2013	Total	Level 1	Level 2	Level 3
Investments - mutual funds & ETFs	$ 9,957,532	$ 9,957,532	$ -	$ -
Assets carried at fair value	9,957,532	$ 9,957,532	$ -	$ -
Money market funds & cash*	12,893			
Total investments	**$ 9,970,425**			

*Money market funds and cash included in the investment portfolio are not subject to the provisions of fair value measurements as they are recorded at cost.

Investments consist of the following at December 31, 2013.

Money market funds and cash	$ 12,893
Fixed income mutual funds	7,503,901
Bond market ETF	2,453,631
Total investments	**$ 9,970,425**

Investment income consists of the following for the years ended December 31, 2013.

Dividends and interest	$ 118,845
Net loss on investments	(142,042)
	$ (23,197)

D. Related Party Transactions

Due to related party – CSBS Education Foundation: At December 31, 2013 and 2012, SRR owed the CSBS Education Foundation (the Foundation) $2,736 and $0, at December 31, 2013 and 2012 respectively for expenses paid by the Foundation on behalf of SRR.

Due to/from related party – CSBS: Since 2007, the Boards of the Conference and SRR have orally agreed to allow certain expenses to be paid by the Conference as an administrative convenience to SRR. Interest on the average outstanding borrowed balance (in excess of related party receivables) is compounded monthly at a fixed rate of six percent for the years ended December 31, 2013 and 2012, as agreed to by the Boards of each organization. The total amount due to/(from) the Conference, including accrued interest payable and net of amounts due from the Conference was $18,080 and $(327,600) at December 31, 2013 and 2012, respectively. Interest expense amounted to $67,901 and $80,986 for the years ended December 31, 2013 and 2012, respectively.

Grant to affiliate: For the years ended December 31, 2013 and 2012, SRR made an unconditional grant to the Foundation of $470,472 and $150,000, respectively.

Expense allocations: The Conference pays the payroll costs of the employees allocated to SRR and certain other costs. 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 $842,145 and $875,751 of its benefit costs to SRR for the years ended December 31, 2013 and 2012, respectively. The allocation of benefits for the year ended December 31, 2012 included $264,033 of expenses related to the final settlement and termination of the Conference's defined benefit pension plan. 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.

Total costs allocated by the Conference to SRR were as follows for the years ended December 31,:

	2013	**2012**
Salaries and benefits	$ 2,976,100	$ 2,663,003
Rent and occupancy	828,350	853,111
Overhead and administrative services	1,537,379	1,364,225
Total allocated costs	**$ 5,341,829**	**$ 4,880,339**

E. NMLS Development Costs

Acquisitions of property and equipment greater than $1,000 are recorded at cost. The capitalized development costs of NMLS began amortizing when the system went live on January 2, 2008, and they were 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 was amortized over a three-year term starting when the system became operational on July 1, 2009, and was disposed during 2013. The capitalized purchase costs of the Cogent Background Check Automation System began amortizing when the system became operational in January 2010, and they are being amortized over a five year term. During the years ended December 31, 2013 and 2012, SRR recognized $5,059,401 and $4,421,564, respectively, of amortization expense related to capitalized software costs.

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

	2013	2012
NMLS development	$ 38,171,071	$ 33,269,968
PULSE educational system component	-	749,616
Cogent Background Check Automation System	505,838	505,838
	38,676,909	34,525,422
Less accumulated depreciation	(17,825,420)	(13,515,635)
Total property and equipment, net	**$ 20,851,489**	**$ 21,009,787**

F. Capitalized Test Development Costs

In order to address provisions of the Secure and Fair Enforcement of Mortgage Licensing Act of 2008, SRR developed a national test component as well as unique state-specific test components which all state-licensed mortgage loan originators registering on 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, 2013 and 2012, SRR recognized $489,774 and $454,319, respectively, of amortization expense.

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

	2013	2012
National test component	$ 633,595	$ 633,595
State-specific test components	776,906	1,835,458
Cyzap education management system	-	5,000
	1,410,501	2,474,053
Less accumulated amortization	(946,780)	(1,203,118)
Total capitalized test development costs, net	**$ 463,721**	**$ 1,270,935**

G. 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. Effective March 10, 2009, FINRA amended its line of credit to allow SRR to borrow up to $10,000,000 (including accrued interest). The line of credit expired as of December 31, 2012. There were no amounts outstanding under the line of credit as of December 31, 2012. Interest expense related to this line of credit for the year ended December 31, 2012 was $0. 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 could borrow up to $200,000 (excluding accrued interest) for use in funding the development and operation of NMLS. At December 31, 2012, no amounts were borrowed or outstanding by SRR. Interest expense from the line of credit was zero for the year ended December 31, 2012. This line of credit expired on December 31, 2012.

H. Commitments and Contingencies

Vendor relationship: The development of the NMLS and its update releases is performed by FINRA. FINRA is also contracted to provide development support for the NMLS' education and testing components. Given the size of the FINRA services contract, a disruption in the capabilities provided by FINRA could have a detrimental impact on SRR.

Contingent use tax liability: Subsequent to December 31, 2013, CSBS determined use tax was due to a taxing authority related to certain services performed, primarily related to SRR activities for which sales tax was not assessed by the vendors. Thus, SRR recorded a contingent liability as of December 31, 2013 for the anticipated settlement and related expenses in the amount of $1,731,000. The contingent liability is presented within accounts payable and accrued expenses on the December 31, 2013 statement of financial condition. The matter has not been resolved as of May 5, 2014.