

Audited Financial Statements
STATE REGULATORY REGISTRY LLC
December 31, 2012

State Regulatory Registry LLC

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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, 2012 and 2011, 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, 2012 and 2011, 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.

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State Regulatory Registry LLC

Statements of Financial Condition

December 31,	2012	2011
Assets		
Cash and cash equivalents	\$ 35,040,028	\$ 25,034,621
Accounts receivable, net of allowance for doubtful accounts of \$10,089 and \$9,380 for 2012 and 2011, respectively	2,093,946	1,800,222
Due from related party, net - Note B	327,600	-
NMLS development costs, net - Note C	21,009,787	20,073,069
Capitalized test development costs, net - Note D	1,270,935	1,589,173
Total assets	\$ 59,742,296	\$ 48,497,085
Liabilities and Owner's Equity		
Liabilities		
Accounts payable and accrued expenses - Note F	7,517,120	\$ 6,725,730
Deferred revenue	830,447	842,309
Due to related party, net - Note B & E	-	902,664
Total liabilities	8,347,567	8,470,703
Commitments - Note F	-	-
Owner's equity		
Retained earnings - undesignated	23,870,789	21,573,162
Retained earnings - designated for reserves and development	27,523,940	18,453,220
Total owner's equity	51,394,729	40,026,382
Total liabilities and owner's equity	\$ 59,742,296	\$ 48,497,085

*Certain 2011 items have been reclassified for comparative purposes.
See notes to the financial statements.*

State Regulatory Registry LLC

Statements of Operations and Owner's Equity Year ended December 31, 2012

(With comparative totals for the year ended December 31, 2011)

	2012		2012	2011
	Operations (Undesignated)	Designated for reserves and development		
Revenue				
NMLS processing fees	\$ 28,798,727	\$ 5,082,128	\$ 33,880,855	\$ 42,141,768
NMLS professional services	21,072,022	3,718,592	24,790,614	34,830,013
NMLS state development contributions	-	270,000	270,000	510,275
Registration fees	111,120		111,120	151,377
Other income	-		-	3,670
Interest income	-		-	570
Total revenue	49,981,869	9,070,720	59,052,589	77,637,673
Expenses				
Program expenses				
NMLS professional services	16,850,410		16,850,410	24,538,751
NMLS system operations	15,819,209		15,819,209	15,075,896
NMLS - call center	5,344,996		5,344,996	7,353,250
Grants to Education Foundation	150,000		150,000	1,150,000
Professional services - legal, audit & other	880,747		880,747	496,536
Staff, board & member travel/meetings	472,690		472,690	181,960
Total program expenses	39,518,052	-	39,518,052	48,796,393
Staffing & administrative expenses				
Salaries and benefits	5,604,202		5,604,202	5,176,252
Rent and occupancy	853,111		853,111	744,780
Technology & general office	1,444,844		1,444,844	1,191,894
Total staffing & administrative expenses	7,902,157	-	7,902,157	7,112,926
Total expenses	47,420,209	-	47,420,209	55,909,319
Net change before other (expense) income	2,561,660	9,070,720	11,632,380	21,728,354
Final pension settlement expense	(264,033)		(264,033)	-
Accrued loss on contingent liability - Note F	-		-	(1,300,000)
Pension benefit other than net periodic costs	-		-	312,038
Change in net assets	2,297,627	9,070,720	11,368,347	20,740,392
Owner's equity, beginning of year	21,573,162	18,453,220	40,026,382	19,285,990
Owner's equity, end of year	\$ 23,870,789	\$ 27,523,940	\$ 51,394,729	\$ 40,026,382

Certain 2011 items have been reclassified for comparative purposes.
See notes to the financial statements.

State Regulatory Registry LLC

Statements of Cash Flows

<i>Year Ended December 31,</i>	2012	2011
Cash flows from operating activities		
Net income	\$ 11,368,347	\$ 20,740,392
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,875,883	4,100,501
Increase in allowance for doubtful accounts	709	7,866
Changes in assets and liabilities:		
Accounts receivable	(294,433)	(26,363)
Prepaid expenses	-	2,772
Accounts payable and accrued expenses	791,390	(2,650,521)
Due to related party	(1,230,264)	347,674
Deferred revenue	(11,862)	664,601
Total adjustments	4,131,423	2,446,530
Net cash provided by operating activities	15,499,770	23,186,922
Cash flows from investing activities		
Purchases of NMLS systems and development	(5,358,282)	(6,757,598)
Costs paid in developing tests	(136,081)	(66,377)
Net cash used in investing activities	(5,494,363)	(6,823,975)
Cash flows from financing activities		
Payments on line of credit balances	-	(19,063)
Net cash used in financing activities	-	(19,063)
Net increase in cash and cash equivalents	10,005,407	16,343,884
Cash and cash equivalents, beginning of year	25,034,621	8,690,737
Cash and cash equivalents, end of year	\$ 35,040,028	\$ 25,034,621
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 82,204	\$ 68,453

*Certain 2011 items have been reclassified for comparative purposes.
See notes to the financial statements.*

State Regulatory Registry LLC

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The State Regulatory Registry LLC (SRR) is a non-profit 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.

The Nationwide Mortgage Licensing System and Registry (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 2009 through 2012 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.

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

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 this bank account were \$3,000,616 and \$4,423,551 as of December 31, 2012 and 2011, 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, system development support from several states received prior to the incurrence of contractual development costs for NMLS, and training course registration fees received in advance of the seminars.

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 April 30, 2013, which is the date the financial statements were available to be issued.

B. RELATED PARTY TRANSACTIONS

Due to related party – CSBS Education Foundation: At December 31, 2012 and 2011, SRR owed the CSBS Education Foundation (the Foundation) \$0 and \$153,310, respectively for expenses paid by the Foundation on behalf of SRR. The Foundation had been known as the Education Foundation of State Bank Supervisors. The Foundation changed its name during 2012.

In September 2008, SRR entered into a line of credit with the Foundation. Under the terms of the line of credit, SRR could borrow up to \$1,000,000. All amounts borrowed under the line had to be repaid by the line's expiration date of December 31, 2012. No interest expense was incurred under this arrangement during the years ended December 31, 2012 and 2011. No amounts were due under this arrangement as of December 31, 2012 and 2011.

State Regulatory Registry LLC

Notes to the Financial Statements

B. RELATED PARTY TRANSACTIONS – CONTINUED

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, 2012 and 2011, 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 (\$327,600) and \$902,664 at December 31, 2012 and 2011, respectively. Interest expense amounted to \$80,986 and \$65,471 for the years ended December 31, 2012 and 2011, respectively.

Grant to affiliate: For the years ended December 31, 2012 and 2011, SRR made an unconditional grant to the Foundation of \$150,000 and \$1,150,000, 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 \$875,751 and \$715,082 of its benefit costs to SRR for the years ended December 31, 2012 and 2011, respectively. This 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. For the year ended December 31, 2011, the allocation included \$312,038 of pension-related benefit other than net periodic pension costs. 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, 2012 and 2011, respectively:

	2012	2011
Salaries and benefits	\$ 2,663,003	\$ 1,488,385
Rent and occupancy	853,111	744,780
Overhead and administrative services	1,364,225	588,693
Total allocated costs	\$ 4,880,339	\$ 2,821,858

C. 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 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 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, 2012 and 2011, SRR recognized \$4,421,564 and \$3,738,582, respectively, of amortization expense related to capitalized software costs.

State Regulatory Registry LLC

Notes to the Financial Statements

C. NMLS DEVELOPMENT COSTS - CONTINUED

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

	2012	2011
NMLS development	\$ 33,269,968	\$ 27,911,687
PULSE educational system component	749,616	749,616
Cogent Background Check Automation System	505,838	505,838
	<u>34,525,422</u>	<u>29,167,141</u>
Less accumulated depreciation	<u>(13,515,635)</u>	<u>(9,094,072)</u>
Total property and equipment, net	<u>\$ 21,009,787</u>	<u>\$ 20,073,069</u>

D. 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, 2012 and 2011, SRR recognized \$454,319 and \$361,919, respectively, of amortization expense.

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

	2012	2011
National test component	\$ 633,595	\$ 633,595
State-specific test components	1,835,458	1,704,377
Cyzap education management system	5,000	-
	<u>2,474,053</u>	<u>2,337,972</u>
Less accumulated amortization	<u>(1,203,118)</u>	<u>(748,799)</u>
Total capitalized test development costs, net	<u>\$ 1,270,935</u>	<u>\$ 1,589,173</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. 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 and 2011. Interest expense related to this line of credit for the years ended December 31, 2012 and 2011 was \$0 and \$2,982 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 could borrow up to \$200,000 (excluding accrued interest) for use in funding the development and operation of NMLS. At December 31, 2012 and 2011, no amounts were borrowed or outstanding by SRR. Interest expense from the line of credit was zero for the years ended December 31, 2012 and 2011, respectively. This line of credit expired on December 31, 2012.

State Regulatory Registry LLC

Notes to the Financial Statements

F. COMMITMENTS AND CONTINGENCIES

Contingent Liability: During 2011, SRR was a party to a lawsuit related to the initial funding of the NMLS. As such, for financial statement purposes, SRR recorded a contingent liability for the anticipated settlement and related expenses in the amount of \$1.3 million. The contingent liability was presented within accounts payable and accrued expenses on the December 31, 2011 statement of financial condition. The matter was resolved in 2012 for an amount that approximated the accrued liability.

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.