

Audited Financial Statements
STATE REGULATORY REGISTRY LLC
December 31, 2014

State Regulatory Registry LLC

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TRYON

A Professional Corporation

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Accountants

and Consultants

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, 2014 and 2013, 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, 2014 and 2013, 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

<i>December 31,</i>	2014	2013
Assets		
Cash and cash equivalents	\$ 14,182,007	\$ 40,804,498
Accounts receivable, net of allowance for doubtful accounts of \$888 and \$17,670 for 2014 and 2013, respectively	349,739	1,878,110
Investments	53,286,545	9,970,425
Prepaid expenses and other	316,112	113,978
Due from related party, net	178,395	-
NMLS development costs, net	19,042,115	20,851,489
Capitalized test development costs, net	212,420	463,721
Total assets	\$ 87,567,333	\$ 74,082,221
Liabilities and Owner's Equity		
Liabilities		
Accounts payable and accrued expenses	\$ 4,747,208	\$ 6,398,492
Deferred revenue	679,388	827,685
Due to related party, net	-	20,816
Total liabilities	5,426,596	7,246,993
Owner's equity		
Retained earnings - undesignated	19,254,535	25,143,403
Retained earnings - designated for reserves and development	62,886,202	41,691,825
Total owner's equity	82,140,737	66,835,228
Total liabilities and owner's equity	\$ 87,567,333	\$ 74,082,221

State Regulatory Registry LLC

Statements of Operations and Owner's Equity Year ended December 31, 2014

(With comparative totals for the year ended December 31, 2013)

	2014		2014	2013
	Operations (Undesignated)	Designated for reserves and development		
Revenue				
NMLS processing fees	\$ 31,617,090	\$ 8,404,543	\$ 40,021,633	\$ 38,633,747
NMLS professional services	16,403,855	4,360,518	20,764,373	24,961,792
Net investment income (loss)	319,872		319,872	(23,197)
Registration fees	153,889		153,889	144,285
NMLS state development contributions	26,000		26,000	26,000
Total revenue	48,520,706	12,765,061	61,285,767	63,742,627
Expenses				
Program expenses				
NMLS system operations	13,865,510		13,865,510	14,125,884
NMLS professional services	11,653,918		11,653,918	14,483,636
NMLS - call center	3,869,744		3,869,744	5,152,798
Professional services - legal, audit & other	2,159,202		2,159,202	1,727,298
Staff, board & member travel/meetings	1,001,160		1,001,160	880,718
Grants to Education Foundation	454,305		454,305	470,472
Total program expenses	33,003,839	-	33,003,839	36,840,806
Staffing & administrative expenses				
Salaries and benefits	10,531,975		10,531,975	7,015,958
Technology & general office	2,456,772		2,456,772	1,861,451
Rent and occupancy	1,129,992		1,129,992	852,913
Total staffing & administrative expenses	14,118,739	-	14,118,739	9,730,322
Total expenses	47,122,578	-	47,122,578	46,571,128
Net change before other expense	1,398,128	12,765,061	14,163,189	17,171,499
Gain (loss) on contingent liability		1,142,320	1,142,320	(1,731,000)
Change in net assets	1,398,128	13,907,381	15,305,509	15,440,499
Owner's equity, beginning of year	25,143,403	41,691,825	66,835,228	51,394,729
Designation of net assets to reserve	(7,286,996)	7,286,996	-	-
Owner's equity, end of year	\$ 19,254,535	\$ 62,886,202	\$ 82,140,737	\$ 66,835,228

State Regulatory Registry LLC

Statements of Cash Flows

Year Ended December 31,	2014	2013
Cash flows from operating activities		
Net income	\$ 15,305,509	\$ 15,440,499
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,932,724	5,554,175
Loss on disposal of capitalized development costs	40,607	351,348
(Decrease) increase in allowance for doubtful accounts	(16,782)	7,581
(Gain) loss on investments, net	(172,841)	142,042
Changes in assets and liabilities:		
Accounts receivable	1,545,153	208,255
Prepaid expenses	(202,134)	(113,978)
Accounts payable and accrued expenses	(1,651,284)	(1,118,628)
Due (to) from related party	(199,211)	348,416
Deferred revenue	(148,297)	(2,762)
Total adjustments	5,127,935	5,376,449
Net cash provided by operating activities	20,433,444	20,816,948
Cash flows from investing activities		
Purchases of NMLS systems and development	(3,912,656)	(4,901,103)
Purchases of investments	(43,143,279)	(10,112,467)
Costs paid in developing tests	-	(38,908)
Net cash used in investing activities	(47,055,935)	(15,052,478)
Net (decrease) increase in cash and cash equivalents	(26,622,491)	5,764,470
Cash and cash equivalents, beginning of year	40,804,498	35,040,028
Cash and cash equivalents, end of year	\$ 14,182,007	\$ 40,804,498
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 59,686	\$ 67,901

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 nonprofit entity that operates 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 2011 through 2014 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.

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. The funds are held in a banking/sweep account, 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. Beginning July 2014, the funds are disbursed the same day they are received, net of any returned transactions. Prior to July 2014, funds were held for five business days to assure that funds collected through ACH and credit card charges had time to clear the banking system. As of December 31, 2013, SRR held a cash balance of \$6,380,771 not included in the statement of financial position which represented the amounts being held for the five day period.

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 collectability. 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 April 28, 2015 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.

State Regulatory Registry LLC

Notes to the Financial Statements

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.

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, 2014 and 2013:

2014	Total	Level 1	Level 2	Level 3
Equity mutual funds & ETFs	\$ 4,565,224	\$ 4,565,224	\$ -	\$ -
Fixed income mutual funds & ETFs	48,705,474	48,705,474		
Assets carried at fair value	53,270,698	\$ 53,270,698	\$ -	\$ -
Money market funds & cash*	15,847			
Total investments	\$ 53,286,545			

2013	Total	Level 1	Level 2	Level 3
Fixed income 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,:

	2014	2013
Fixed income mutual funds	\$ 26,951,836	\$ 7,503,901
Bond market ETFs	21,753,638	2,453,631
Equity mutual funds	3,808,576	-
Equity ETFs	756,648	-
Money market funds and cash	15,847	12,893
Total investments	\$ 53,286,545	\$ 9,970,425

State Regulatory Registry LLC

Notes to the Financial Statements

C. INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED

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

	2014	2013
Dividends and interest	\$ 147,031	\$ 118,845
Net gain (loss) on investments	172,841	(142,042)
Net investment income (loss)	<u>\$ 319,872</u>	<u>\$ (23,197)</u>

D. RELATED PARTY TRANSACTIONS

Due to/from related party – CSBS Education Foundation: At December 31, 2014, CSBS Education Foundation (the Foundation) owed SRR \$5,218 for expenses paid by the SRR on behalf of the Foundation. At December 31, 2013, SRR owed the Foundation \$2,736 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, 2014 and 2013, 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) to the Conference was \$(173,177) and \$18,080 at December 31, 2014 and 2013, respectively. Interest expense amounted to \$59,686 and \$67,901 for the years ended December 31, 2014 and 2013, respectively.

Grant to affiliate: For the years ended December 31, 2014 and 2013, SRR made an unconditional grant to the Foundation of \$454,305 and \$470,472, 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 retirement 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 \$1,515,509 and \$842,145 of its benefit costs to SRR for the years ended December 31, 2014 and 2013, respectively. 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 offices.

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

	2014	2013
Salaries and benefits	\$ 3,399,213	\$ 2,976,100
Rent and occupancy	1,129,991	828,350
Overhead and administrative services	2,081,523	1,537,379
Total allocated costs	<u>\$ 6,610,727</u>	<u>\$ 5,341,829</u>

State Regulatory Registry LLC

Notes to the Financial Statements

E. NMLS DEVELOPMENT COSTS

Acquisitions of property and equipment greater than \$5,000 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 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, 2014 and 2013, SRR recognized \$5,722,031 and \$5,059,401, respectively, of amortization expense related to capitalized software costs.

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

	2014	2013
NMLS development	\$ 42,083,728	\$ 38,171,071
Cogent Background Check Automation System	<u>505,838</u>	<u>505,838</u>
	42,589,566	38,676,909
Less accumulated depreciation	<u>(23,547,451)</u>	<u>(17,825,420)</u>
Total property and equipment, net	<u>\$ 19,042,115</u>	<u>\$ 20,851,489</u>

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 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, 2014 and 2013, SRR recognized \$210,693 and \$489,774, respectively, of amortization expense.

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

	2014	2013
National test component	\$ 633,595	\$ 633,595
State-specific test components	<u>624,367</u>	<u>776,906</u>
	1,257,962	1,410,501
Less accumulated amortization	<u>(1,045,542)</u>	<u>(946,780)</u>
Total capitalized test development costs, net	<u>\$ 212,420</u>	<u>\$ 463,721</u>

State Regulatory Registry LLC

Notes to the Financial Statements

G. COMMITMENTS AND CONTINGENCIES

Vendor relationship: The development of NMLS and its update releases is performed by FINRA. FINRA is also contracted to provide development support for 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 was presented within accounts payable and accrued expenses on the December 31, 2013 statement of financial condition. During 2014, CSBS came to a settlement agreement with the taxing authority in the amount of \$588,680. The settlement amount was fully paid during 2014. Therefore, there was no contingent liability recorded as of December 31, 2014. SRR recognized a gain of \$1,142,320 during the year ended December 31, 2014 in connection with the write-off of the remaining contingent liability.

H. RESERVES

In May 2014, SRR established a formal reserve policy. The primary purposes of the reserves are to ensure that SRR is financially prepared to meet the needs for planned system enhancements as well as uninsurable risks. Reserves are now defined as unrestricted net assets less investments in items such as NMLS development costs and capitalized test development costs. Thus, the reserve balance at December 31, 2014 was \$62,886,202. For the year ended December 31, 2013, prior to the implementation of the new policy, the reserve balance was \$41,691,825. A designation of net assets of \$7,286,996 was made on the Statements of Operations and Owner's Equity to reflect the new policy.