

**Audited Financial Statements**  
**STATE REGULATORY REGISTRY LLC**  
**December 31, 2015**

# State Regulatory Registry LLC

## Contents

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<i>Independent Auditor's Report</i>	1
<i>Financial Statements</i>	
Statements of financial condition	2
Statements of operations and owner's equity	3
Statements of cash flows	4
Notes to the financial statements	5 - 10

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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, 2015 and 2014, 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, 2015 and 2014, 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>	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$ 30,981,872	\$ 14,182,007
Accounts receivable, net of allowance for doubtful accounts of \$267 and \$888 for 2015 and 2014, respectively	300,819	349,739
Investments	53,096,635	53,286,545
Prepaid expenses and other	424,906	316,112
Due from related party, net	122,557	178,395
NMLS development costs, net	16,275,573	19,042,115
Capitalized test development costs, net	122,221	212,420
<b>Total assets</b>	<b>\$ 101,324,583</b>	<b>\$ 87,567,333</b>
<b>Liabilities and Owner's Equity</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 5,186,784	\$ 4,747,208
Deferred revenue	1,039,351	679,388
Total liabilities	6,226,135	5,426,596
Owner's equity		
Retained earnings - undesignated	16,397,794	19,254,535
Retained earnings - designated for reserves and development	78,700,654	62,886,202
Total owner's equity	95,098,448	82,140,737
<b>Total liabilities and owner's equity</b>	<b>\$ 101,324,583</b>	<b>\$ 87,567,333</b>

# State Regulatory Registry LLC

## Statements of Operations and Owner's Equity Year ended December 31, 2015

*(With comparative totals for the year ended December 31, 2014)*

	2015		2015	2014
	Operations (Undesignated)	Designated for reserves and development		
Revenue				
NMLS processing fees	\$ 35,143,613	\$ 8,243,564	\$ 43,387,177	\$ 40,021,633
NMLS professional services	17,438,552	4,090,524	21,529,076	20,764,373
Registration fees	234,217		234,217	153,889
NMLS state development contributions	9,000		9,000	26,000
Net investment (loss) income	(164,180)		(164,180)	319,872
<b>Total revenue</b>	<b>52,661,202</b>	<b>12,334,088</b>	<b>64,995,290</b>	<b>61,285,767</b>
Expenses				
Program expenses				
NMLS system operations	14,334,807		14,334,807	13,865,510
NMLS professional services	11,284,931		11,284,931	11,653,918
NMLS - call center	3,623,637		3,623,637	3,869,744
Professional services - legal, audit & other	3,017,179		3,017,179	2,159,202
Staff, board & member travel/meetings	903,002		903,002	1,001,160
Grants to Education Foundation	639,961		639,961	454,305
Total program expenses	33,803,517	-	33,803,517	33,003,839
Staffing & administrative expenses				
Salaries and benefits	13,790,062		13,790,062	10,531,975
Technology & general office	3,134,533		3,134,533	2,456,772
Rent and occupancy	1,309,467		1,309,467	1,129,992
Total staffing & administrative expenses	18,234,062	-	18,234,062	14,118,739
<b>Total expenses</b>	<b>52,037,579</b>	<b>-</b>	<b>52,037,579</b>	<b>47,122,578</b>
Net change before other expense	623,623	12,334,088	12,957,711	14,163,189
Gain on contingent liability				1,142,320
<b>Change in net assets</b>	<b>623,623</b>	<b>12,334,088</b>	<b>12,957,711</b>	<b>15,305,509</b>
Owner's equity, beginning of year	19,254,535	62,886,202	82,140,737	66,835,228
Designation of net assets to reserve	(3,480,364)	3,480,364	-	-
<b>Owner's equity, end of year</b>	<b>\$ 16,397,794</b>	<b>\$ 78,700,654</b>	<b>\$ 95,098,448</b>	<b>\$ 82,140,737</b>

# State Regulatory Registry LLC

## Statements of Cash Flows

<b>Year Ended December 31,</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 12,957,711	\$ 15,305,509
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,252,472	5,932,724
Loss on disposal of capitalized development costs	-	40,607
Decrease in allowance for doubtful accounts	(621)	(16,782)
Loss (gain) on investments, net	1,269,128	(172,841)
Changes in assets and liabilities:		
Accounts receivable	49,541	1,545,153
Prepaid expenses	(108,794)	(202,134)
Accounts payable and accrued expenses	439,576	(1,651,284)
Due from (to) related party	55,838	(199,211)
Deferred revenue	359,963	(148,297)
Total adjustments	7,317,103	5,127,935
Net cash provided by operating activities	20,274,814	20,433,444
<b>Cash flows from investing activities</b>		
Purchases of NMLS systems and development	(2,395,731)	(3,912,656)
Purchases of investments	(1,079,218)	(43,143,279)
Net cash used in investing activities	(3,474,949)	(47,055,935)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>16,799,865</b>	<b>(26,622,491)</b>
Cash and cash equivalents, beginning of year	14,182,007	40,804,498
<b>Cash and cash equivalents, end of year</b>	<b>\$ 30,981,872</b>	<b>\$ 14,182,007</b>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for interest	\$ 70,768	\$ 59,686

# State Regulatory Registry LLC

## Notes to the Financial Statements

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### 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.

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

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### 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 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, 2016 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, 2015 and 2014:

2015	Total	Level 1	Level 2	Level 3
Equity mutual funds & ETFs	\$ 8,620,700	\$ 8,620,700	\$ -	\$ -
Fixed income mutual funds & ETFs	44,461,652	44,461,652		
<b>Assets carried at fair value</b>	<b>53,082,352</b>	<b>\$ 53,082,352</b>	<b>\$ -</b>	<b>\$ -</b>
Money market funds & cash*	14,283			
<b>Total investments</b>	<b>\$ 53,096,635</b>			

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

\*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,:

	2015	2014
Fixed income mutual funds	\$ 25,401,052	\$ 26,951,836
Bond market ETFs	19,060,600	21,753,638
Equity mutual funds	7,236,381	3,808,576
Equity ETFs	1,384,319	756,648
Money market funds and cash	14,283	15,847
<b>Total investments</b>	<b>\$ 53,096,635</b>	<b>\$ 53,286,545</b>

# 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,:

	2015	2014
Dividends and interest	\$ 1,104,948	\$ 147,031
Net (loss) gain on investments	<u>(1,269,128)</u>	<u>172,841</u>
Net investment (loss) income	<u>\$ (164,180)</u>	<u>\$ 319,872</u>

### D. RELATED PARTY TRANSACTIONS

Due to/from related party – CSBS Education Foundation: At December 31, 2015 and 2014, CSBS Education Foundation (the Foundation) owed SRR \$2,664 and \$5,218 for expenses paid by the SRR on behalf of the Foundation.

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, 2015 and 2014, as agreed to by the Boards of each organization. In addition, SRR may incur certain costs on behalf of the Conference. The Conference reimburses SRR for these costs. The total amount due from the Conference, net of amounts owed by SRR for accrued liabilities, was \$119,893 and \$173,177 at December 31, 2015 and 2014, respectively. SRR's Interest expense amounted to \$70,768 and \$59,686 for the years ended December 31, 2015 and 2014, respectively.

Grant to affiliate: For the years ended December 31, 2015 and 2014, SRR made unconditional grants to the Foundation of \$639,961 and \$454,305, 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 \$1,928,317 and \$1,515,509 of its benefit costs to SRR for the years ended December 31, 2015 and 2014, 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,:

	2015	2014
Salaries and benefits	\$ 4,900,689	\$ 3,399,213
Rent and occupancy	1,309,466	1,129,991
Overhead and administrative services	<u>2,505,752</u>	<u>2,081,523</u>
Total allocated costs	<u>\$ 8,715,907</u>	<u>\$ 6,610,727</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 was amortized over a five year term. During the years ended December 31, 2015 and 2014, SRR recognized \$5,162,273 and \$5,722,031, respectively, of amortization expense related to capitalized software costs.

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

	2015	2014
NMLS development	\$ 44,479,459	\$ 42,083,728
Cogent Background Check Automation System	505,838	505,838
	<u>44,985,297</u>	<u>42,589,566</u>
Less accumulated amortization	(28,709,724)	(23,547,451)
Total property and equipment, net	<u>\$ 16,275,573</u>	<u>\$ 19,042,115</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, 2015 and 2014, SRR recognized \$90,199 and \$210,693, respectively, of amortization expense.

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

	2015	2014
National test component	\$ 633,595	\$ 633,595
State-specific test components	624,367	624,367
	<u>1,257,962</u>	<u>1,257,962</u>
Less accumulated amortization	(1,135,741)	(1,045,542)
Total capitalized test development costs, net	<u>\$ 122,221</u>	<u>\$ 212,420</u>

# State Regulatory Registry LLC

## Notes to the Financial Statements

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### 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 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, 2015 and 2014 was \$78,700,654 and \$62,886,202, respectively.