

State Regulatory Registry LLC

Financial Report
December 31, 2019

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Statements of financial position	3
Statements of operations and member's equity	4-5
Statements of cash flows	6
Notes to financial statements	7-15

Independent Auditor's Report

Board of Managers
State Regulatory Registry LLC

Report on the Financial Statements

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 statement of financial position as of December 31, 2019, the related statements of operations and member's equity and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of State Regulatory Registry LLC, as of an for the year ended December 31, 2018, were audited by other auditors whose report, dated April 22, 2019, expressed an unmodified opinion on those financial statements.

RSM VS LLP

Washington, D.C.
May 26, 2020

State Regulatory Registry LLC

Statements of Financial Position December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 75,276,535	\$ 75,182,380
Accounts receivable, net	545,267	856,265
Investments	63,169,603	57,787,313
Prepaid expenses and other	211,366	168,977
Due from related parties, net	526,005	-
Property and equipment, net	30,062,897	16,600,221
	<u>30,062,897</u>	<u>16,600,221</u>
Total assets	<u>\$ 169,791,673</u>	<u>\$ 150,595,156</u>
Liabilities and Member's Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,582,973	\$ 5,574,482
Deferred revenue	1,433,786	1,197,421
Due to related party, net	3,543,187	295,324
Total liabilities	<u>11,559,946</u>	<u>7,067,227</u>
Commitments and contingencies (Note 8)		
Member's equity:		
Undesignated	30,201,286	16,600,224
Designated for reserves and development	128,030,441	126,927,705
Total member's equity	<u>158,231,727</u>	<u>143,527,929</u>
Total liabilities and member's equity	<u>\$ 169,791,673</u>	<u>\$ 150,595,156</u>

See notes to financial statements.

State Regulatory Registry LLC

**Statement of Operations and Member's Equity
Year Ended December 31, 2019**

	Operations (Undesignated)	Designated for Reserves and Development	Total
Revenue:			
NMLS processing fees	\$ 51,712,936	\$ 911,199	\$ 52,624,135
NMLS professional services, net	11,045,944	191,537	11,237,481
Registration fees	241,562	-	241,562
Other income	318	-	318
Net investment income	6,512,739	-	6,512,739
Total revenue and support	69,513,499	1,102,736	70,616,235
Expenses:			
Program expenses:			
NMLS system operations	12,839,875	-	12,839,875
NMLS professional services	810,979	-	810,979
NMLS – call center	4,738,830	-	4,738,830
Professional services – legal, audit and other	4,612,236	-	4,612,236
Staff, board and member travel/meetings	1,356,406	-	1,356,406
Grants to CSBS and Education Foundation	3,210,004	-	3,210,004
Staffing and administrative expenses:			
Salaries and benefits	22,027,619	-	22,027,619
Technology and general office	4,363,873	-	4,363,873
Rent and occupancy	1,952,615	-	1,952,615
Total expenses	55,912,437	-	55,912,437
Change in member's equity	13,601,062	1,102,736	14,703,798
Member's equity			
Beginning	16,600,224	126,927,705	143,527,929
Ending	\$ 30,201,286	\$ 128,030,441	\$ 158,231,727

See notes to financial statements.

State Regulatory Registry LLC

Statement of Operations and Member's Equity Year Ended December 31, 2018

	Operations (Undesignated)	Designated for Reserves and Development	Total
Revenue:			
NMLS processing fees	\$ 40,788,125	\$ 10,041,915	\$ 50,830,040
NMLS professional services, net	8,766,665	2,149,115	10,915,780
Registration fees	248,751	-	248,751
Other income	3,086,000	-	3,086,000
Net investment income	162,071	-	162,071
Total revenue and support	53,051,612	12,191,030	65,242,642
Expenses:			
Program expenses:			
NMLS system operations	11,967,375	-	11,967,375
NMLS professional services	1,057,991	-	1,057,991
NMLS – call center	4,629,532	-	4,629,532
Professional services – legal, audit and other	8,306,974	-	8,306,974
Staff, board and member travel/meetings	1,395,095	-	1,395,095
Grants to CSBS and Education Foundation	720,000	-	720,000
Staffing and administrative expenses:			
Salaries and benefits	18,639,981	-	18,639,981
Technology and general office	3,789,955	-	3,789,955
Rent and occupancy	1,999,667	-	1,999,667
Total expenses	52,506,570	-	52,506,570
Change in member's equity	545,042	12,191,030	12,736,072
Member's equity:			
Beginning	22,055,182	108,736,675	130,791,857
Designation of net assets to reserve	(6,000,000)	6,000,000	-
Ending	\$ 16,600,224	\$ 126,927,705	\$ 143,527,929

See notes to financial statements.

State Regulatory Registry LLC

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in member's equity	\$ 14,703,798	\$ 12,736,072
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,807,400	3,507,744
Loss on disposition of assets	-	1,947,217
(Gain) loss on investments, net	(3,743,813)	2,116,428
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	310,998	(249,689)
Prepaid expenses	(42,389)	(54,785)
(Decrease) increase in:		
Accounts payable and accrued expenses	1,008,491	(304,519)
Due to related parties, net	2,721,858	535,476
Deferred revenue	236,365	148,737
Net cash provided by operating activities	18,002,708	20,382,681
Cash flows from investing activities:		
Purchases of property and equipment	(16,270,076)	-
Purchases of investments	(1,664,262)	(1,602,390)
Proceeds from sales of investments	25,785	25,781
Net cash used in investing activities	(17,908,553)	(1,576,609)
Net increase in cash and cash equivalents	94,155	18,806,072
Cash and cash equivalents:		
Beginning	75,182,380	56,376,308
Ending	\$ 75,276,535	\$ 75,182,380

See notes to financial statements.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations: The State Regulatory Registry LLC (SRR) operates Nationwide Multistate 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) and is therefore, consolidated with the Conference and its affiliates. 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 NMLS was created to comply with the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act). 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. All individual mortgage loan originators are represented in the system.

A summary of SRR's significant accounting policies follows:

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.

Basis of presentation: SRR reports as a for profit entity even though it is a disregarded entity of the Conference and reported on the Center's form 990 information return.

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 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.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to investment return net of related fees.

SRR invests funds in a professionally managed portfolio that contains money market funds, 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.

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. The allowance was less than \$1,000 as of both December 31, 2019 and 2018. This allowance is regularly reviewed by management.

Property and equipment: Acquisitions of property and equipment greater than \$5,000 are recorded at cost. The initial capitalized development costs of NMLS began amortizing when the system went live on January 2, 2008, and they have been fully 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 is amortized over the estimated useful lives of each release, which has also been determined to be seven years. During the years ended December 31, 2019 and 2018, SRR recognized \$2,807,400 and \$3,507,744, respectively, of amortization expense related to capitalized NMLS development costs.

SRR's various information technology applications are currently in the process of being upgraded. Accordingly, SRR had capitalized work-in-progress development costs of \$24,073,498 and \$25,707,052 within the NMLS development category as of the years ended December 31, 2019 and 2018, respectively. Amortization of these amounts will begin when the assets are placed into service.

Impairment policy: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. During the years ended December 31, 2019 and 2018, management did not consider the value of any property or equipment or intangible assets to be impaired.

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

State Regulatory Registry LLC

Notes to the Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Adopted accounting pronouncements: During 2019, SRR adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. ASU 2014-09 replaces most existing revenue recognition guidance in generally accepted accounting principles (GAAP). This standard also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. SRR adopted the new standard effective for the year ended December 31, 2019 using the full retrospective method. Based on SRR's review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard with the exception of certain NMLS professional services revenue streams which are now considered to be agency transactions. The adoption of this standard required \$9,928,100 of NMLS professional expenses to be reclassified to net with NMLS professional fee revenue within the statements of operations and member's equity and changes in net assets for the year ended December 31, 2018, but had no effect on the previously reported change in member's equity.

Revenue: SRR's activities are primarily supported through NMLS license processing fees, and NMLS professional fees. Prices charged to customers are specific to distinct performance obligations and do not consist of multiple transactions. Economic factors are driven by consumer confidence, employment, inflation and other world events that impact the timing and level of cash received and revenue recognized by SRR. Periods of economic downturn resulting from any of the above factors may result in declines in future cash flows and recognized revenue of SRR.

SRR did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components. Finally, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

NMLS processing fees: NMLS processing fees revenue consists of NMLS license processing fees, credit card service fees, and NMLS subscription revenue.

NMLS license processing fees are fixed amounts charged by SRR to facilitate the obtainment and renewal of licenses through the NMLS. When a license issuance or renewal request is initiated by the customer within the NMLS, the request is transmitted to the selected state agencies who are responsible for making the licensing determination to issue or renew a license. Credit card service fees are fixed amounts charged by SRR to process customer payments through the NMLS. License processing and credit card service fees are recognized at the point in time when SRR processes the transactions through the NMLS. For the years ended December 31, 2019 and 2018, respectively, license processing and credit card processing revenue recognized at a point in time totaled \$50,101,046 and \$48,414,482.

NMLS subscription revenue consists of two-factor subscriptions and B2B subscriptions. For two-factor subscriptions, the customer receives the use of a two-factor authentication tool to meet NMLS security requirements for a period of one year. For B2B subscriptions, the customer receives access to various resources and data online for the selected weekly, monthly, or annual period. SRR's performance obligation for two-factor and B2B subscriptions are considered to occur evenly over the period of the subscriptions. Amounts received for subscriptions are deferred upon receipt and recognized ratably over the subscription period. For the years ended December 31, 2019 and 2018, respectively, subscription revenue recognized over time totaled \$2,523,089 and \$2,415,558.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

NMLS professional fees: NMLS professional fees represent the fees charged by SRR to facilitate the pre-licensure requirements of the SAFE Act. These fees include state and national test fees, fingerprinting fees, credit report fees and course provider fees.

For state and national test fees, SRR has a performance obligation to act as an agent in processing the customer request through the NMLS to register for exams. After the request is processed through the NMLS, all aspects of exam registration and administration are the responsibility of a third party provider. For fingerprinting fees, SRR has a performance obligation to act as an agent in processing the customer request through the NMLS for a criminal background check. After the request is processed through the NMLS, all aspects of the criminal background check are performed by the Federal Bureau of Investigation with results returned to the state agencies. For credit report fees, SRR has a performance obligation to act as an agent in processing the customer request through the NMLS for an independent credit report. After the request is processed through the NMLS, the credit report is created by a third party provider with results returned to the state agencies. State and national test fees, fingerprinting fees, and credit report fees are recognized at the point in time when the customer request is processed through the NMLS. For the years ended December 31, 2019 and 2018, respectively, state and national test fees fingerprinting fees and credit report fees revenue recognized at a point in time totaled \$7,000,511 and \$6,733,444 net of expenses paid to the third-party providers.

Course provider fees consist of course application fees and credit banking fees. As part of the SAFE Act pre-licensure requirements, licensure applicants must have a certain amount of continuing education credits in approved courses. Course application fees represent SRR's performance obligation to make an approval decision as to whether a course meets the continuing professional education requirements of the SAFE Act. Course application fees are recognized at the point in time when SRR has rendered an approval decision to the course provider. Credit banking fees represent SRR's performance obligation to track education courses that count towards licensure requirements within the licensure applicant's record in the NMLS. Credit banking fees are paid by the course providers to SRR when courses have been completed and revenue is recognized at the point in time when SRR has recorded the course completion details in the NMLS. For the years ended December 31, 2019 and 2018, respectively, course provider fees recognized at a point in time totaled \$4,236,970 and \$4,182,336.

Allocation of functional expenses: Expenses have been summarized on a functional basis in Note 9. Accordingly, costs primarily associated with personnel, professional fees, information technology, supplies, and other shared services have been allocated among the program and supporting services benefited on the basis of the labor costs utilized by each area.

Subsequent events: Subsequent events have been evaluated through May 26, 2020 which is the date the financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 10, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact SRR's operations, suppliers or other vendors, and customer base. The operations for SRR's services could be negatively impacted by the regional and global outbreak of COVID-19. Any quarantines, labor shortages or other disruptions to SRR's operations, or those of its customers, may adversely impact SRR's revenues, ability to provide its services and operating results. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in which SRR operates, resulting in an economic downturn that could affect demand for its services. The extent to which the coronavirus impacts SRR's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 2. Investments

Investments consist of the following at December 31:

	2019	2018
Fixed income mutual funds	\$ 28,343,053	\$ 27,248,240
Bond market ETFs	23,071,381	21,243,551
Equity mutual funds	10,150,407	7,984,139
Equity ETFs	1,595,448	1,301,622
Money market funds	9,314	9,761
Total investments	<u>\$ 63,169,603</u>	<u>\$ 57,787,313</u>

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

	2019	2018
Dividends and interest	\$ 2,780,559	\$ 2,304,280
Net gain (loss) on investments	3,743,813	(2,116,428)
Investment fees	(11,633)	(25,781)
Net investment income	<u>\$ 6,512,739</u>	<u>\$ 162,071</u>

Note 3. Fair Value Measurements

The Fair Value Measurement Topic of the ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this topic as assumptions market participants would use in pricing an asset or liability.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. As required by the Fair Value Measurement Topic, SRR does not adjust the quoted prices for these investments even in situations where SRR holds a large position and a sale could reasonably impact the quoted price.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement. There were no Level 2 inputs for any assets or liabilities held by SRR at December 31, 2019 and 2018.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category are investments where fair value is not based on a NAV practical expedient. There were no Level 3 inputs for any assets or liabilities held by SRR at December 31, 2019 and 2018.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 3. Fair Value Measurements (Continued)

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, 2019 and 2018:

2019	Total	Level 1	Level 2	Level 3
Fixed income mutual funds	\$ 28,343,053	\$ 28,343,053	\$ -	\$ -
Bond market ETFs	23,071,381	23,071,381	-	-
Equity mutual funds	10,150,407	10,150,407	-	-
Equity ETFs	1,595,448	1,595,448	-	-
Money market funds	9,314	9,314	-	-
Investments carried at fair value	<u>\$ 63,169,603</u>	<u>\$ 63,169,603</u>	<u>\$ -</u>	<u>\$ -</u>

2018	Total	Level 1	Level 2	Level 3
Fixed income mutual funds	\$ 27,248,240	\$ 27,248,240	\$ -	\$ -
Bond market ETFs	21,243,551	21,243,551	-	-
Equity mutual funds	7,984,139	7,984,139	-	-
Equity ETFs	1,301,622	1,301,622	-	-
Money market funds	9,761	9,761	-	-
Investments carried at fair value	<u>\$ 57,787,313</u>	<u>\$ 57,787,313</u>	<u>\$ -</u>	<u>\$ -</u>

Note 4. Related Party Transactions

Due to/from related party – Conference: 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. 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 \$2,980,579 and \$315,236 at December 31, 2019 and 2018, respectively.

Due to/from related party – CSBS Education Foundation: At December 31, 2018, CSBS Education Foundation (the Foundation) owed SRR \$19,912 for expenses paid by SRR on the Foundation's behalf. At December 31, 2019, SRR owed CSBS Education Foundation (the Foundation) \$97,500 for expenses paid by the Foundation on SRR's behalf.

Grants to affiliates: For the years ended December 31, 2019 and 2018, SRR made unconditional grants to the Foundation of \$1,060,000 and \$720,000, respectively. The grants to the Foundation represent general support for the Foundation's education programs. For the years ended December 31, 2019 and 2018, SRR made an unconditional grant to the Conference in the amount of \$2,150,004 and \$1,500,000 for the years ended December 31, 2019 and 2018, respectively. The grants to the Conference are for the purpose of reimbursing the Conference for non-depository activities performed in support of SRR's program.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 4. Related Party Transactions (Continued)

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 \$3,135,949 and \$2,426,185 of its benefit costs to SRR for the years ended December 31, 2019 and 2018, 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 D.C. offices.

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

	2019	2018
Salaries and benefits	\$ 8,297,835	\$ 7,337,954
Rent and occupancy	2,096,602	1,999,667
Overhead and administrative services	7,807,347	5,666,817
Total allocated costs	<u>\$ 18,201,784</u>	<u>\$ 15,004,438</u>

Note 5. Property and Equipment

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

	2019	2018
NMLS development	\$ 73,779,241	\$ 57,509,165
NMLS capitalized test development costs	869,961	1,009,641
Cogent Background Check Automation System	505,838	505,838
	<u>75,155,040</u>	<u>59,024,644</u>
Less accumulated amortization	(45,092,143)	(42,424,423)
Total property and equipment, net	<u>\$ 30,062,897</u>	<u>\$ 16,600,221</u>

Note 6. 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 total member's equity less investments in items such as NMLS development costs and capitalized test development costs. Thus, the reserve balance at December 31, 2019 and 2018 was \$128,030,441 and \$126,927,705, respectively.

Note 7. Liquidity

SRR strives to maintain liquid financial assets sufficient to cover general expenditures anticipated within one year. Financial assets in excess of daily cash requirements are invested in overnight treasury sweep accounts with commercial banks, mutual funds and exchange-traded funds (ETFs).

State Regulatory Registry LLC

Notes to the Financial Statements

Note 7. Liquidity (Continued)

The following table reflects SRR's financial assets that are available to meet general expenditures within one year of the statement of financial position date. Amounts not available are primarily board-designated funds as determined under SRR's Reserve Policy and Liquidity Policy. Continuing development and enhancement of the NMLS licensing database is the largest anticipated future need. In the event the need arises to utilize the board-restricted funds for liquidity purposes, the reserves could be drawn upon through board resolution.

	2019	2018
Cash and cash equivalents	\$ 75,276,535	\$ 75,182,380
Investments	63,169,603	57,787,313
Accounts receivable	545,267	856,265
Total financial assets	138,991,405	133,825,958
Board-designated funds for future development	(38,428,402)	(34,171,226)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 100,563,003</u>	<u>\$ 99,654,732</u>

Note 8. Commitments and Contingencies

Vendor relationship: The development of NMLS and its update releases is performed by the Financial Industry Regulatory Authority (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.

NMLS 2.0 development: In March 2017, the Boards of SRR and CSBS approved a contract for the development of NMLS 2.0, a redesign of the NMLS that will incorporate the latest technology and streamline the license approval process. The contract was subsequently terminated during 2018 when the Boards and management of SRR and CSBS decided to take the project in a different direction. The process to choose a new vendor is underway and a new vendor is expected to be selected in July 2020.

Budgeted expenditures range between \$50 million and \$90 million and the project is expected to be completed over several years.

State Regulatory Registry LLC

Notes to the Financial Statements

Note 9. Functional Presentation of Expenses

The schedule of functional expense at December 31, 2019 and 2018, respectively, was as follows:

	Program Services NMLS	Management and General	Total
Expenses:			
NMLS system operations	\$ 12,839,875	\$ -	\$ 12,839,875
NMLS professional services	810,979	-	810,979
NMLS – call center	4,738,830	-	4,738,830
Professional services – legal, audit and other	1,646,248	2,965,988	4,612,236
Staff, board and member travel/meetings	1,028,890	327,516	1,356,406
Grants to CSBS and Education Foundation	3,210,004	-	3,210,004
Salaries and benefits	15,450,586	6,577,033	22,027,619
Technology and general office	1,337,031	3,026,842	4,363,873
Rent and occupancy	1,743,406	209,209	1,952,615
Total 2019 expenses by nature and function	<u>\$ 42,805,849</u>	<u>\$ 13,106,588</u>	<u>\$ 55,912,437</u>
Expenses:			
NMLS system operations	\$ 11,967,375	\$ -	\$ 11,967,375
NMLS professional services	1,057,991	-	1,057,991
NMLS – call center	4,629,532	-	4,629,532
Professional services – legal, audit and other	5,305,298	1,501,676	6,806,974
Staff, board and member travel/meetings	1,111,615	283,480	1,395,095
Grants to CSBS and Education Foundation	2,220,000	-	2,220,000
Salaries and benefits	13,092,870	5,547,111	18,639,981
Technology and general office	1,238,924	2,551,031	3,789,955
Rent and occupancy	1,757,283	242,384	1,999,667
Total 2018 expenses by nature and function	<u>\$ 42,380,888</u>	<u>\$ 10,125,682</u>	<u>\$ 52,506,570</u>