

Audited Financial Statements
STATE REGULATORY REGISTRY LLC
December 31, 2010

State Regulatory Registry LLC

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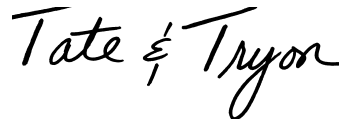
Independent Auditor's Report

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, 2010 and 2009, and the related statements of operations and owner's equity and cash flows for the years then ended. These financial statements are the responsibility of SRR's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, 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.

The image shows a handwritten signature in cursive script that reads "Tate & Tryon". The signature is written in black ink and is positioned above the typed name of the firm.

Washington, DC
March 24, 2011

State Regulatory Registry LLC

Statements of Financial Condition

December 31,	2010	2009
Assets		
Cash and cash equivalents	\$ 8,690,737	\$ 1,835,212
Accounts receivable, net of allowance for doubtful accounts of \$1,514 for both 2010 and 2009.	1,781,725	837,371
Prepaid expenses	2,772	7,500
Property and equipment, net - Note C	17,054,053	12,137,329
Capitalized test development costs, net - Note D	1,884,715	1,122,840
Total assets	\$ 29,414,002	\$ 15,940,252
Liabilities and Owner's Equity		
Liabilities		
Accounts payable	\$ 9,376,251	\$ 3,386,332
Due to related party - Note B	127,972	1,640
Deferred revenue	177,708	900,196
Lines of credit payable to others - Note E	19,063	4,994,763
Lines of credit payable to related parties - Note B	427,018	3,779,684
Total liabilities	10,128,012	13,062,615
Commitments - Note F	-	-
Owner's equity		
Retained earnings	19,285,990	2,877,637
Total liabilities and owner's equity	\$ 29,414,002	\$ 15,940,252

State Regulatory Registry LLC

Statements of Operations and Owner's Equity

<i>Year Ended December 31,</i>	2010	2009
Mortgage licensing database:		
Test administration fees	\$ 33,121,207	\$ 3,110,712
Licensing system processing fees	17,586,303	6,359,596
Fingerprinting and credit report fees	9,105,446	-
Education course and credit banking fees	4,106,771	839,566
Database development support	3,047,013	5,876,896
Training course registration fees	8,400	138,230
Operating expense - Note B	(49,527,122)	(14,826,244)
Gross profit from mortgage licensing database	17,448,018	1,498,756
Interest income	373	972
Other income	324,231	800
General and administrative expense - Note B	(1,214,269)	(682,518)
Grant to affiliate - Note B	(150,000)	(150,000)
Net income	16,408,353	668,010
Owner's equity, beginning of year	2,877,637	2,209,627
Owner's equity, end of year	\$ 19,285,990	\$ 2,877,637

State Regulatory Registry LLC

Statements of Cash Flows

Year Ended December 31,	2010	2009
Cash flows from operating activities		
Net income	\$ 16,408,353	\$ 668,010
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,033,204	1,742,921
Decrease in allowance for doubtful accounts	-	(1,486)
Changes in assets and liabilities:		
Accounts receivable	(944,354)	(175,295)
Prepaid expenses	4,728	(7,500)
Accounts payable	5,989,919	1,135,441
Due to related party	126,332	(3,693)
Deferred revenue	(722,488)	660,946
Total adjustments	7,487,341	3,351,334
Net cash provided by operating activities	23,895,694	4,019,344
Cash flows from investing activities		
Purchases of property and equipment	(7,660,808)	(5,470,046)
Costs paid in developing tests	(1,050,995)	(1,220,600)
Net cash used in investing activities	(8,711,803)	(6,690,646)
Cash flows from financing activities		
Proceeds borrowed from lines of credit with others	95,382	5,472,308
Payments on line of credit balances with others	(5,071,082)	(2,000,000)
Proceeds borrowed from lines of credit with related parties	2,560,757	84,209
Payments on line of credit balances with related parties	(5,913,423)	(486,954)
Net cash (used in) provided by financing activities	(8,328,366)	3,069,563
Net increase in cash and cash equivalents	6,855,525	398,261
Cash and cash equivalents, beginning of year	1,835,212	1,436,951
Cash and cash equivalents, end of year	\$ 8,690,737	\$ 1,835,212
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 590,197	\$ -

See notes to the financial statements.

State Regulatory Registry LLC

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: State Regulatory Registry LLC (SRR) was formed in the District of Columbia in September 2006 to develop and operate the Nationwide Mortgage Licensing System (NMLS) as a mortgage licensing database for use by state government regulators and by the public, and to design uniform systems, applications, and procedures for adoption by participating state government regulators.

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.

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 any tax positions taken, and therefore, does not have any uncertain tax positions that are material to the financial statements. Management considers the years from 2007 through 2010 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

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 the NMLS, and training course registration fees received in advance of the seminars.

Subsequent events: Subsequent events have been evaluated through March 24, 2011.

B. RELATED PARTY TRANSACTIONS

Due to related party: Due to related party amounts are typically composed of SRR expenses paid by the Education Foundation of State Bank Supervisors (the Foundation). At December 31, 2010 and 2009, SRR owed the Foundation \$127,972 and \$1,640, respectively.

Lines of credit payable: During 2007, the Boards of the Conference and SRR orally agreed to terms of a line of credit that the Conference would extend to SRR in order to support SRR general operations, such as salary and administrative costs, prior to SRR being able to generate positive cash flows from database operations. Under the agreed-upon terms of the line of credit, the Conference will advance up to \$3,500,000 to SRR. The line of credit does not have a maturity date, nor are there any specified repayment terms for amounts borrowed under the line of credit. Interest on the outstanding borrowed balance began accruing in 2007 and was compounded monthly at a fixed rate of six percent for the years ended December 31, 2010 and 2009, as agreed to by the Boards of each organization. The total amount borrowed and outstanding under the line of credit, including accrued interest payable to the Conference, was \$427,018 and \$2,673,923 at December 31, 2010 and 2009, respectively. Interest expense amounted to \$149,457 and \$182,087 for the years ended December 31, 2010 and 2009, respectively.

On September 17, 2008, SRR entered into a line of credit with the Foundation. Under the terms of the line of credit agreement, SRR may borrow up to \$1,000,000 without any restrictions as to how the borrowed funds are used by SRR. There are no specific repayment requirements on outstanding balances, but all borrowed amounts must be repaid by December 31, 2012, unless the term is extended by the Foundation. Interest is assessed at a variable rate based on the U.S. prime rate published in the Wall Street Journal at January 1st of each year, and the prime rate at January 1 remains in effect for the following calendar year. Interest compounds on a quarterly basis on the outstanding balance of the line. For each of the years ended December 31, 2010 and 2009, the interest rate was established at eight percent. The total amount borrowed and outstanding under the line of credit, including accrued interest payable to the Foundation, was \$0 and \$1,105,761 at December 31, 2010 and 2009, respectively. Interest expense from the line of credit amounted to \$55,639 to \$84,209 for the years ended December 31, 2010 and 2009, respectively.

State Regulatory Registry LLC

Notes to the Financial Statements

B. RELATED PARTY TRANSACTIONS - CONTINUED

Grant to affiliate: For each of the years ended December 31, 2010 and 2009, SRR made an unconditional grant to the Foundation of \$150,000.

Expense allocations: The Conference pays the payroll costs of SRR employees, and these costs are directly charged to SRR. However, certain other costs are allocated by the Conference to each of its departments and related entities. 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 \$746,418 and \$551,002 of its benefit costs to SRR for the years ended December 31, 2010 and 2009, respectively. This allocation of benefits included (\$29,163) and \$87,143 of pension-related (benefits) charges other than net periodic pension costs for the years ended December 31, 2010 and 2009, respectively. These allocated benefit costs are included within SRR's operating expense amount on the statements of operations and owner's equity.

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. As a result of SRR's share of this allocation, the Conference allocated \$1,214,269 and \$682,518 of its administrative overhead costs to SRR for the years ended December 31, 2010 and 2009, respectively.

C. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$1,000 are recorded at cost. The capitalized development costs of the 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, 2010 and 2009, SRR recognized \$2,744,084 and \$1,645,161, respectively, of depreciation expense related to capitalized software costs.

State Regulatory Registry LLC

Notes to the Financial Statements

C. PROPERTY AND EQUIPMENT - CONTINUED

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

	2010	2009
Nationwide Mortgage Licensing System (NMLS)	\$ 21,168,941	\$ 13,795,018
PULSE educational system component	743,016	631,741
Cogent Background Check Automation System	497,586	321,976
	<u>22,409,543</u>	<u>14,748,735</u>
Less accumulated depreciation	(5,355,490)	(2,611,406)
Total property and equipment, net	<u>\$ 17,054,053</u>	<u>\$ 12,137,329</u>

D. CAPITALIZED TEST DEVELOPMENT COSTS

In order to address provisions of the Secure and Fair Enforcement of Mortgage Licensing Act of 2008, SRR has developed a national test as well as unique state-specific tests which all mortgage loan originators registering on the 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, 2010 and 2009, SRR recognized \$289,120 and \$97,760, respectively, of amortization expense.

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

	2010	2009
National test	\$ 633,595	\$ 545,600
State-specific tests	1,638,000	675,000
	<u>2,271,595</u>	<u>1,220,600</u>
Less accumulated amortization	(386,880)	(97,760)
Total capitalized test development costs, net	<u>\$ 1,884,715</u>	<u>\$ 1,122,840</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. Under the terms of the line of credit agreement, SRR was permitted to borrow up to \$3,500,000 (including accrued interest) for use in funding the development and hosting costs of its mortgage licensing database. Effective March 10, 2009, FINRA amended its line of credit to allow SRR to borrow up to \$10,000,000 (including accrued interest). There are no specific repayment requirements on outstanding balances, but all borrowed amounts must be repaid by December 31, 2012, unless the term is extended by FINRA.

State Regulatory Registry LLC

Notes to the Financial Statements

E. LINES OF CREDIT PAYABLE TO OTHERS - CONTINUED

For the year ended December 31, 2009 interest was assessed at 6%. From January 1, 2010 onward, interest is assessed at a variable rate based on the U.S. prime rate published in the Wall Street Journal at January 1st of each year plus 2%, and compounds on a quarterly basis on the outstanding balance of the line. The interest rate at January 1 remains in effect for the remainder of the calendar year.

At December 31, 2010 and 2009, the amount borrowed and outstanding by SRR, including accrued interest, totaled \$19,063 and \$4,774,182, respectively. Interest expense related to the line of credit totaled \$81,881 and \$228,624 for the years ended December 31, 2010 and 2009, 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 may borrow up to \$200,000 (excluding accrued interest) for use in funding the development and operation of its mortgage licensing database. There are no specific repayment requirements on outstanding balances, but all borrowed amounts must be repaid by December 31, 2012, unless the term is extended by AARMR. During the year ended December 31, 2009, interest was assessed at 8%. From January 1, 2010 onward, interest is assessed at a variable rate based on the U.S. prime rate published in the Wall Street Journal at January 1st of each year, and compounds on a quarterly basis on the outstanding balance of the line. The prime rate at January 1 remains in effect for the remainder of the calendar year. At December 31, 2010 and 2009, the amount borrowed and outstanding by SRR, including accrued interest, totaled \$0 and \$220,581, respectively. Interest expense from the line of credit totaled \$13,501 and \$16,798 for the years ended December 31, 2010 and 2009, respectively.

F. COMMITMENT

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. Under the amended terms of these various contracts with FINRA, management projects it will be responsible for costs of approximately \$25 million during 2011.