

National Insurance Producer Registry

Financial Report
December 31, 2019

Contents

Independent auditor's report	1-2
Financial statements	
Statements of financial position	3
Statements of activities	4
Statements of cash flows	5
Notes to financial statements	6-13

Independent Auditor's Report

Members of the Board of Directors
National Insurance Producer Registry

Report on the Financial Statements

We have audited the accompanying financial statements of National Insurance Producer Registry, which comprise the statements of financial position as of December 31, 2019 and 2018, the related statements of activities 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 controls 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 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 the entity'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 the entity'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 National Insurance Producer Registry as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, National Insurance Producer Registry adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Our opinion was not modified with respect to this matter.

RSM VS LLP

Kansas City, Missouri
March 9, 2020

National Insurance Producer Registry

Statements of Financial Position December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,673,826	\$ 17,451,585
Accounts receivable, less allowance for doubtful accounts of 2019—\$12,000 and 2018—\$0	2,998,343	2,629,382
Interest receivable	28,655	26,627
Prepaid expenses	281,005	286,422
Investments (Note 3)	45,495,943	37,937,859
Total current assets	69,477,772	58,331,875
Property and equipment, net (Note 4)	21,467	40,950
Total assets	\$ 69,499,239	\$ 58,372,825
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 3,533,116	\$ 3,460,662
Accrued expenses	919,238	724,383
Total current liabilities	4,452,354	4,185,045
Net assets:		
Without donor restrictions	65,046,885	54,187,780
Total liabilities and net assets	\$ 69,499,239	\$ 58,372,825

See notes to financial statements.

National Insurance Producer Registry

Statements of Activities

Years Ended December 31, 2019 and 2018

	2019	2018
Revenues:		
Access and transaction fees	\$ 45,308,216	\$ 39,996,559
Other income	618	350
Total revenues	45,308,834	39,996,909
Expenses:		
Administrative services and license fees	19,348,961	17,035,113
Salaries	8,027,018	7,013,045
Employee benefits	2,801,647	2,562,671
Professional services	9,069,544	7,611,380
Travel	521,401	530,737
Rental and maintenance	604,689	472,831
Depreciation	19,483	20,650
Insurance	114,225	122,889
Supplies	70,005	81,482
Bad-debt expense	7,408	29,685
Other expenses	74,416	81,292
Total expenses	40,658,797	35,561,775
Changes in net assets before net investment income (loss)	4,650,037	4,435,134
Net investment income (loss) (Note 3)	6,209,068	(1,096,842)
Changes in net assets without donor restrictions	10,859,105	3,338,292
Net assets, beginning of year	54,187,780	50,849,488
Net assets, end of year	\$ 65,046,885	\$ 54,187,780

See notes to financial statements.

National Insurance Producer Registry

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Changes in net assets without donor restrictions	\$ 10,859,105	\$ 3,338,292
Adjustments to reconcile changes in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	19,483	20,650
Net realized and unrealized loss (gain) on investments	(4,614,970)	2,367,620
Changes in operating assets and liabilities:		
Accounts receivable	(368,961)	1,303,791
Interest receivable	(2,028)	(3,618)
Prepaid expenses	5,417	(134,614)
Accounts payable	72,454	177,276
Accrued expenses	194,855	212,401
Net cash provided by operating activities	6,165,355	7,281,798
Cash flows from investing activities:		
Purchase of investments	(33,947,701)	(16,189,296)
Proceeds from disposition of investments	31,004,587	7,977,355
Purchase of property and equipment	-	(36,800)
Net cash used in investing activities	(2,943,114)	(8,248,741)
Net increase (decrease) in cash and cash equivalents	3,222,241	(966,943)
Cash and cash equivalents:		
Beginning	17,451,585	18,418,528
Ending	\$ 20,673,826	\$ 17,451,585

See notes to financial statements.

National Insurance Producer Registry

Notes to Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: National Insurance Producer Registry (NIPR) is a nonprofit affiliate of the National Association of Insurance Commissioners (the NAIC). NIPR combines the strengths of the public and private sectors to create products and services that benefit insurance regulators, industry and consumers.

Basis of accounting for revenues: NIPR earns revenues predominantly through access fees and transaction fees by charging a fee for providing the interface between industry and state regulators for licensing and other transactions. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard replaced most existing revenue recognition guidance under accounting principles generally accepted in the United States of America. This standard also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. NIPR adopted the new standard effective for the year ended December 31, 2019, using the modified retrospective transition approach. Based on NIPR'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. See below for additional disclosures.

As noted above, revenue from contracts with customers is derived primarily from access fees and transaction fees.

NIPR's access fees revenue is recognized at a point in time and consists of performance obligations that are satisfied when users access NIPR's Producer Database (PDB). The PDB is an electronic database consisting of information relating to insurance agents and brokers. The PDB links participating state regulatory licensing systems into one common repository of producer information. Prices are distinct to a performance obligation. As of December 31, 2019 and 2018, access fees revenue was \$14,814,080 and \$12,641,473, respectively.

NIPR's transactions fees revenue is recognized at a point in time and consists of performance obligations that are satisfied when users process transactions through the NIPR Gateway. The NIPR Gateway facilitates the electronic exchange of producer information, including license applications, appointments and terminations. Prices are distinct to a performance obligation. As of December 31, 2019 and 2018, access fees revenue was \$30,480,970 and \$27,337,842, respectively.

Associated accounts receivable for revenue from contracts as of December 31, 2019 and 2018, were \$2,998,343 and \$2,629,382, respectively. There were no changes in access fees and transaction fees that would affect economic seasonality of the statements of financial position.

NIPR 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.

National Insurance Producer Registry

Notes to Financial Statements

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

Basis of accounting and presentation: NIPR presents its financial statements based on *FASB Accounting Standards Codification* (ASC) Topic 985, Presentation of Financial Statements. Net assets, revenues and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the NIPR and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets are not subject to donor-imposed restrictions but may be subject to board designations. At December 31, 2019 and 2018, net assets consisted entirely of net assets without donor restrictions.

Net assets with donor restrictions: Net assets are subject to donor-imposed restrictions that may or will be met either by actions of NIPR and/or the passage of time. Also included within this category are net assets subject to donor-imposed restrictions to be maintained permanently by NIPR. Generally, the donors of these assets permit NIPR to use all or part of the income earned on related investments for general or specific purposes. At December 31, 2019 and 2018, NIPR does not have any net assets with donor restrictions.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: NIPR considers all liquid investments with original maturities of one year or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market funds.

Accounts receivable: Accounts receivable are stated at the amounts billed to customers. NIPR provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Past-due accounts are periodically reviewed by management. Delinquent and/or uncollectible receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Investments: NIPR carries its investments at their fair values. Unrealized gains and losses are included in the change in net assets in the accompanying financial statements.

Investments may be exposed to various risks, such as interest rate, market and credit risks. As a result, it is at least reasonably possible that changes in risks in the near term could affect investment balances, and those effects could be significant.

Fair value of financial instruments: The following methods and assumptions were used to estimate the fair value of each class of NIPR's financial instruments at December 31, 2019 and 2018:

Cash and cash equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

Investment securities, except alternative investments: The fair values of fixed-income and domestic and international equity investments are based on quoted market prices at the reporting date for those or similar investments. A portion of the fixed-income investments is valued based on quoted prices for similar instruments in active markets.

National Insurance Producer Registry

Notes to Financial Statements

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

Alternative investments: NIPR reports the fair value of alternative investments using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by NIPR based on various factors.

Fair value measurements: Fair value is defined 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 in its principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. NIPR accounts for its investments at fair value. In accordance with the guidance, NIPR has categorized its investments based on the priority of the inputs to the valuation technique, which gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices for identical instruments traded in active markets

Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, or derived from inputs that are observable

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker trade transactions; Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities

Investments and concentrations of credit risk: Financial instruments that potentially subject NIPR to significant concentrations of credit risk consist principally of cash and investments. NIPR maintains deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of these financial institutions and believes NIPR's risk is negligible.

Alternative investments are redeemable with the fund at net asset value under the original terms of the partnership and/or subscription agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future, in accordance with the fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of NIPR's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is therefore reasonably possible that if NIPR were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

Property and equipment: Property and equipment is stated at cost. Routine repairs and maintenance are expensed as incurred. Depreciation is computed by the straight-line method over the estimated useful life of the related assets.

	Years
Furniture and equipment	5
Computer software	3
Computer hardware	3

National Insurance Producer Registry

Notes to Financial Statements

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

Income taxes: NIPR has been granted exemption from income taxes by the Internal Revenue Service under the provisions of section 501(c)(6) of the Internal Revenue Code and a similar provision of state law. However, NIPR is subject to federal income tax on any unrelated business taxable income.

Uncertain tax positions, if any, are recorded in accordance with ASC Topic 740, Income Taxes. ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at December 31, 2019 or 2018.

Functional expenses: The Not-for-Profit Entities topic of the ASC requires nonprofit organizations to disclose expenses by functional classification. NIPR presents expenses only by their natural classification on the December 31, 2019 and 2018, statements of activities, as there is only one program (regulatory support services) with multiple service offerings. Therefore, management does not allocate expenses between multiple programs and supporting expenses. Management believes that disclosing expenses by function is insignificant to the financial statements taken as a whole and, therefore, does not apply the provision of the topic as it relates to the disclosure of expenses by functional classification.

Recent accounting pronouncement: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal year 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. NIPR has no lease obligations but is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Note 2. Liquidity and Availability of Resources

NIPR regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2019 and 2018, the following financial assets are available to meet annual operating needs of the subsequent fiscal year:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 20,673,826	\$ 17,451,585
Accounts receivable, net	2,998,343	2,629,382
Interest receivable	28,655	26,627
Investments (Note 3)	45,495,943	37,937,859
Total financial assets	<u>\$ 69,196,767</u>	<u>\$ 58,045,453</u>

NIPR has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, and marketable debt and equity securities. See Note 3 for information about NIPR's investments.

National Insurance Producer Registry

Notes to Financial Statements

Note 3. Investments and Investment Income

Investments carried at fair value at December 31, 2019 and 2018, consisted of the following:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Government bonds	\$ 3,710,871	\$ 3,326,198	\$ 2,263,576	\$ 2,262,947
Corporate bonds	2,066,313	2,501,242	2,336,852	2,295,876
Fixed-income mutual funds	9,090,318	9,365,894	11,512,918	11,200,137
Foreign fixed-income funds	2,100,489	2,077,430	3,925,029	3,742,867
Domestic equity mutual funds	6,722,714	6,845,294	2,664,986	3,274,686
Real estate investment trusts	1,385,776	1,363,274	-	-
Common stock:				
Industrials	347,898	456,720	361,487	443,847
Consumer discretionary	1,280,253	1,719,544	1,968,835	1,921,321
Financials	665,324	1,200,030	1,040,042	1,301,872
Information technology	829,676	1,739,514	1,321,027	2,175,169
Other industries	2,342,326	3,205,451	4,720,760	4,980,599
Preferred stock	50,201	70,850	50,201	41,160
Foreign equity mutual funds	7,068,366	7,610,990	3,650,990	3,545,434
Master limited partnership	-	-	738,213	429,257
Alternative equity hedge funds	4,019,427	4,013,512	262,365	322,687
	\$ 41,679,952	\$ 45,495,943	\$ 36,817,281	\$ 37,937,859

Total net investment income (loss) is composed of the following:

	2019	2018
Interest and dividend income	\$ 1,715,619	\$ 1,381,485
Net realized gains	1,919,555	873,709
Net unrealized gains (losses)	2,695,415	(3,241,329)
Investment manager fees	(121,521)	(110,707)
	\$ 6,209,068	\$ (1,096,842)

National Insurance Producer Registry

Notes to Financial Statements

Note 3. Investments and Investment Income (Continued)

The following tables summarize the financial investments measured at fair value on a recurring basis, segregated by the general classification of such instruments pursuant to the valuation hierarchy:

	December 31, 2019			
	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	\$ 3,326,198	\$ -	\$ 3,326,198	\$ -
Corporate bonds	2,501,242	-	2,501,242	-
Fixed-income mutual funds	9,365,894	9,365,894	-	-
Foreign fixed-income funds	2,077,430	2,077,430	-	-
Domestic equity mutual funds	6,845,294	6,845,294	-	-
Real estate investment trusts	1,363,274	1,363,274	-	-
Common stock:				
Industrials	456,720	456,720	-	-
Consumer discretionary	1,719,544	1,719,544	-	-
Financials	1,200,030	1,200,030	-	-
Information technology	1,739,514	1,739,514	-	-
Other industries	3,205,451	3,205,451	-	-
Preferred stock	70,850	70,850	-	-
Foreign equity mutual funds	7,610,990	7,610,990	-	-
Master limited partnership	-	-	-	-
	<u>41,482,431</u>	<u>\$ 35,654,991</u>	<u>\$ 5,827,440</u>	<u>\$ -</u>
Investments measured at net asset value:				
Alternative equity hedge funds	<u>4,013,512</u>			
Total investments	<u><u>\$ 45,495,943</u></u>			

National Insurance Producer Registry

Notes to Financial Statements

Note 3. Investments and Investment Income (Continued)

	December 31, 2018			
	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	\$ 2,262,947	\$ -	\$ 2,262,947	\$ -
Corporate bonds	2,295,876	-	2,295,876	-
Fixed-income mutual funds	11,200,137	11,200,137	-	-
Foreign fixed-income funds	3,742,867	3,742,867	-	-
Domestic equity mutual funds	3,274,686	3,274,686	-	-
Common stock:				
Industrials	443,847	443,847	-	-
Consumer discretionary	1,921,321	1,921,321	-	-
Financials	1,301,872	1,301,872	-	-
Information technology	2,175,169	2,175,169	-	-
Other industries	4,980,599	4,980,599	-	-
Preferred stock	41,160	41,160	-	-
Foreign equity mutual funds	3,545,434	3,545,434	-	-
Master limited partnership	429,257	429,257	-	-
	<u>37,615,172</u>	<u>\$ 33,056,349</u>	<u>\$ 4,558,823</u>	<u>\$ -</u>
Investments measured at net asset value:				
Alternative equity hedge funds	322,687			
Total investments	<u>\$ 37,937,859</u>			

	Alternative Equity Funds	
	2019	2018
Total gains (losses), net, included in earnings attributable to the change in unrealized gains, net, relating to financial instruments still held	<u>\$ 10,382</u>	<u>\$ 108</u>

The following table sets forth additional disclosures of NIPR's investments whose fair value is estimated using NAV per share (or its equivalent) as of December 31, 2019 and 2018:

Investment	Fair Value at December 31		Unfunded Commitment	Redemption Frequency	Redemption Notice Period
	2019	2018			
Protégé Partners QP Fund LTD (A)	\$ 24,866	\$ 322,687	\$ -	Quarterly	95 days
Magnitude International (B)	3,988,646	-	-	Quarterly	65 days
	<u>\$ 4,013,512</u>	<u>\$ 322,687</u>			

(A) This fund aims to generate consistent absolute returns by investing in assets with a diversified group of investment managers through managed account structures or in the private investment funds sponsored by investment managers (collectively, hedge fund managers or hedge funds).

(B) This fund's investment objective is to deliver a 5% return over LIBOR, net of fees, over an extended market cycle with a target of achieving 5% annual volatility. The fund is a globally diversified, multi-strategy, multi-manager portfolio that seeks to maximize expected active return from investing in hedge funds while minimizing passive risk and managing exposure to shock risk.

National Insurance Producer Registry

Notes to Financial Statements

Note 4. Property and Equipment

Property and equipment at December 31, 2019 and 2018, consisted of the following:

	2019	2018
Furniture and equipment	\$ 19,930	\$ 19,930
Computer hardware	13,335	13,335
Computer software	122,252	122,252
	<u>155,517</u>	<u>155,517</u>
Less accumulated depreciation and amortization	134,050	114,567
	<u>\$ 21,467</u>	<u>\$ 40,950</u>

Note 5. Related-Party Transactions

NIPR and the NAIC executed a License and Services Agreement (the Agreement) effective January 1, 2018, for an initial term of five years. The terms of the Agreement provide for (1) a 38% license fee for NIPR's use of the NAIC's producer data; (2) the reimbursement of the actual cost of services, facilities and equipment provided to NIPR by the NAIC; and (3) a service fee for administrative and technical services provided by NAIC staff.

The total amount charged during the year and amounts owed at year-end are as follows:

	2019	2018
Administrative services provided by and paid to the NAIC	\$ 2,134,654	\$ 1,847,701
License fee paid to the NAIC	\$ 17,214,307	\$ 15,187,412
Amounts payable to the NAIC	\$ 1,871,543	\$ 1,807,831

Note 6. Defined Contribution Plan

NIPR has a defined contribution 401(k) plan (the Plan), which covers substantially all employees who have completed one year or more of service. Each year the Board of Directors determines the contribution for the next year. In 2019 and 2018, NIPR matched up to 3.5% of contributions of those employees who contributed to the Plan and contributed 5.0% of all employees' annual compensation. Contribution expense was \$558,893 and \$507,767 for the years ended December 31, 2019 and 2018, respectively.

Note 7. Significant Estimates and Concentrations

U.S. GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Approximately 26% and 23% of all revenues for the years ended December 31, 2019 and 2018, respectively, were received from one and two business partners, respectively.

Note 8. Subsequent Events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2019, through March 9, 2020. There have been no events that occurred during such period that would require disclosure in these financial statements or would be required to be recognized in the financial statements as of or for the year ended December 31, 2019.

