Audited Consolidated Financial Statements and Supplementary Information

CONFERENCE OF STATE BANK SUPERVISORS, INC. AND AFFILIATES

December 31, 2017

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Independent Auditor's Report on the Consolidated Financial Statements

To the Board of Directors
Conference of State Bank Supervisors, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of the Conference of State Bank Supervisors, Inc. and Affiliates (the Conference), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements. The prior-year summarized comparative information has been derived from the Conference's 2016 consolidated financial statements and, in our report dated April 28, 2017 we expressed an unmodified opinion on those consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Conference's preparation and fair presentation of the consolidated 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 Conference'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Conference of State Bank Supervisors, Inc. and Affiliates as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Tate & Tryon

Washington, DC
April 18, 2018

Consolidated Statements of Financial Position

December 31,	2017	2016
Assets		
Cash and cash equivalents	**$ 65,791,247**	$ 58,491,985
Accounts receivable, net of allowance for doubtful accounts of $2,081 and $5,460 for 2017 and 2016, respectively	**646,124**	609,762
Investments	**80,692,037**	76,057,914
Prepaid expenses and other	**1,492,594**	1,328,547
Deferred compensation	**1,211,236**	904,252
Property and equipment, net	**25,612,910**	16,765,373
Capitalized test development costs, net	**11,818**	59,092
Total assets	**$ 175,457,966**	$ 154,216,925
Liabilities and Net Assets		
Accounts payable and accrued expenses	**$ 7,907,383**	$ 5,479,701
Day with the Commissioner	**130,548**	100,989
Deferred revenue	**4,200,515**	3,743,221
Deferred rent	**2,529,713**	2,609,675
Funds held for others	**2,067,476**	2,623,046
Deferred compensation	**1,211,236**	904,252
Total liabilities	**18,046,871**	15,460,884
Net assets		
Unrestricted		
Undesignated	**25,624,723**	16,824,463
Designated for reserves and development	**116,108,171**	106,197,148
Total unrestricted net assets	**141,732,894**	123,021,611
Temporarily restricted	**15,667,063**	15,723,292
Permanently restricted	**11,138**	11,138
Total net assets	**157,411,095**	138,756,041
Total liabilities and net assets	**$ 175,457,966**	$ 154,216,925

See accompanying notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates
Consolidated Statements of Activities
Year ended December 31, 2017
(With comparative totals for the year ended December 31, 2016)

Year Ended December 31, 2017	2017 Operations (Undesignated)	Designated for reserves	Total unrestricted activity	Temporarily restricted activity	Permanently restricted actvity	Total 2017	Total 2016
Revenue							
NMLS processing fees	$ 44,504,563	$ 6,229,943	$ 50,734,506	$ -	$ -	**$ 50,734,506**	47,812,495
NMLS professional services	19,618,436	2,746,274	22,364,710	-	-	**22,364,710**	22,575,041
Dues	5,793,202	-	5,793,202	-	-	**5,793,202**	6,052,438
Registration fees	2,054,607	-	2,054,607	-	-	**2,054,607**	2,584,298
Accreditation of banking & mortgage departments	243,748	-	243,748	-	-	**243,748**	238,000
Other income	8,000	-	8,000	-	-	**8,000**	9,000
Investment income	5,345,327	-	5,345,327	-	-	**5,345,327**	2,979,077
Net assets released from restriction	56,229	-	56,229	(56,229)	-	**-**	-
Total revenue	77,624,112	8,976,217	86,600,329	(56,229)	-	**86,544,100**	82,250,349
Expenses							
Direct program expenses							
NMLS system operations	13,561,479	-	13,561,479	-	-	**13,561,479**	13,768,751
NMLS professional services	10,769,669	-	10,769,669	-	-	**10,769,669**	11,609,168
NMLS - call center	3,805,441	-	3,805,441	-	-	**3,805,441**	3,719,231
Professional services - legal, audit & other	7,557,479	-	7,557,479	-	-	**7,557,479**	4,564,066
Staff, board & member travel/meetings	3,144,787	-	3,144,787	-	-	**3,144,787**	2,995,366
Total direct program expenses	38,838,855	-	38,838,855	-	-	**38,838,855**	36,656,582
Staffing & administrative expenses							
Salaries and benefits	21,970,956	-	21,970,956	-	-	**21,970,956**	19,782,399
Technology & general office	5,041,545	-	5,041,545	-	-	**5,041,545**	4,274,212
Rent and occupancy	2,037,690	-	2,037,690	-	-	**2,037,690**	1,805,548
Total staffing & administrative expenses	29,050,191	-	29,050,191	-	-	**29,050,191**	25,862,159
Total expenses	67,889,046	-	67,889,046	-	-	**67,889,046**	62,518,741
Change in net assets	9,735,066	8,976,217	18,711,283	(56,229)	-	**18,655,054**	19,731,608
Net assets, beginning of year	16,824,463	106,197,148	123,021,611	15,723,292	11,138	**138,756,041**	119,024,433
Designation of net assets to reserves	(934,806)	934,806	-	-	-	**-**	-
Net assets, end of year	$ 25,624,723	$ 116,108,171	$ 141,732,894	$ 15,667,063	$ 11,138	**$ 157,411,095**	$ 138,756,041

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,	2017	2016
Cash Flows From Operating Activities		
Change in net assets	**$ 18,655,054**	$ 19,731,608
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	**5,021,567**	5,512,541
Loss on disposal of property and equipment	**-**	28,699
Gain on investments, net	**(3,542,229)**	(1,406,403)
Changes in assets and liabilities:		
Accounts receivable	**(36,362)**	(256,950)
Prepaid expenses and other	**(164,047)**	(175,278)
Deferred compensation asset	**(306,984)**	(117,095)
Accounts payable and accrued expenses	**2,427,682**	(688,832)
Day with the Commissioner	**29,559**	12,300
Deferred revenue	**457,294**	273,828
Deferred rent	**(79,962)**	22,366
Deferred compensation liability	**306,984**	114,981
Total adjustments	**4,113,502**	3,320,157
Net cash provided by operating activities	**22,768,556**	23,051,765
Cash Flows From Investing Activities		
Purchases of property and equipment	**(13,821,830)**	(3,352,918)
Proceeds from the sale and redemption of investments	**537,815**	37,187
Purchases of investments	**(1,629,709)**	(1,563,382)
Net cash used in investing activities	**(14,913,724)**	(4,879,113)
Cash Flows From Financing Activities		
Disbursements of National Mortgage Settlement Funds and other funds held on behalf of States	**(555,570)**	(1,409,639)
Net cash used in financing activities	**(555,570)**	(1,409,639)
Net increase in cash and cash equivalents	**7,299,262**	16,763,013
Cash and cash equivalents, beginning of year	**58,491,985**	41,728,972
Cash and cash equivalents, end of year	**$ 65,791,247**	$ 58,491,985

See accompanying notes to consolidated financial statements.

A. Summary of Significant Accounting Policies

Organization: The Conference of State Bank Supervisors, Inc. (CSBS) is a nonprofit organization founded in 1902 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 CSBS Education Foundation (the Foundation) was formed in January 1985 to carry on the educational and scholarship activities of state banking department personnel.

The State Regulatory Registry LLC (SRR) is a non-profit entity formed in 2006 to operate the Nationwide Multistate Licensing System and Registry (NMLS) on behalf of state financial services regulatory agencies. CSBS is SRR's only member.

Principles of consolidation: The consolidated financial statements include the accounts of CSBS, the Foundation, and SRR (collectively referred to as the Conference). All significant intra-entity accounts and transactions have been eliminated in consolidation.

Basis of accounting: The consolidated financial statements of the Conference are presented on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses are recognized when the underlying obligations are incurred. The Conference defines operations as all revenues and expenses that are an integral part of its programs and support services.

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 the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income tax status: By letter dated May 15, 2012, the Internal Revenue Service (IRS) notified CSBS that it is exempt from the payment of Federal income taxes on income other than unrelated business income under Section 501(c)(3) of the Internal Revenue Code (IRC). CSBS's 501(c)(3) status became effective retroactive to March 25, 2011 and CSBS is classified as other than a private foundation. Prior to March 25, 2011, CSBS was exempt from the payment of income taxes on income other than unrelated business income under Section 501(c)(6) of the IRC.

The Foundation is exempt from the payment of Federal and state income taxes on income other than unrelated business income under Section 501(c)(3) of the IRC, and has been classified by the Internal Revenue Service as other than a private foundation.

SRR has been ruled by the Internal Revenue Service to be a single-member domestic limited liability company, and is therefore disregarded as a separate entity for income tax purposes.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and cash equivalents: For financial statement purposes, the Conference 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.

Accounts receivable: Accounts receivable consist primarily of amounts owed from customers for mortgage database processing fees, membership dues, conference & seminar registrations, and online courses. Accounts receivable are presented at the net amount due to the Conference (i.e., gross amount less allowance). The Conference'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, the Conference's relationship with the customer, and the age of the receivable balance. The Conference 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.

Property and equipment: Property and equipment are stated at cost. It is the policy of the Conference to capitalize all purchases of property and equipment greater or equal to $5,000 and depreciate them over estimated useful lives of 3 – 10 years using the straight-line method, with no salvage value.

Leasehold improvements to the Conference's office space are recorded at cost and depreciated using the straight-line basis over the remaining life of the original lease term. The development costs of the NMLS database are being amortized over a seven year useful life. Development costs of subsequent database releases will also be amortized over a seven year useful life beginning when the release is implemented.

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 component as well as state-specific test components which all state-licensed mortgage loan originators registering on NMLS are required to take. As of December 31, 2017 and 2016, SRR had capitalized a total of $1,009,642, related to the development of these tests.

SRR is amortizing these test development costs over an estimated useful life of five years. During the years ended December 31, 2017 and 2016, amortization expense was $47,274 and $63,129, respectively.

A. Summary of Significant Accounting Policies - Continued

Net assets: Net assets are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions.

The Conference classifies certain components of its unrestricted net assets as being designated for reserves and development.

Revenue recognition: Revenue and expenses are recognized in the period in which services or benefits are provided or received. Deferred revenue primarily includes member dues, meeting registration fees, accreditation fees, and license processing fees received before they are earned.

Allocation of functional expenses: Expenses have been summarized on a functional basis in Note K. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Comparative totals: The consolidated financial statements and footnote disclosures for the year ended December 31, 2016 are presented only to provide a basis for comparison with 2017. The 2016 consolidated financial statements and footnote disclosures are not intended to present all information necessary for a fair presentation in accordance with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Conference's consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Subsequent events: Subsequent events have been evaluated through April 18, 2018, which is the date the consolidated financial statements were available to be issued.

B. Credit and Market Risk

Cash: The Conference 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. The Conference 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: The Conference invests funds in mutual funds and exchange-traded funds (ETFs). Such investments are exposed to market and credit risks. Thus, the Conference's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in these consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

C. Investments and Fair Value Measurements

The Conference 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.

In May 2015, the FASB issued Accounting Standards Update No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07). The amendments within ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The Conference adopted this accounting pronouncement on a retrospective basis for the year ended December 31, 2017. There was no effect on the previously reported total investments.

The following is a summary of the input levels used to determine fair values, measured on a recurring basis, of the following assets and liabilities at December 31, 2017:

2017	Total	Level 1	Level 2	Level 3
Investments				
Fixed income mutual funds & ETFs	$ 61,065,109	$ 61,065,109	$ -	$ -
Equity mutual funds & ETFs	19,439,268	19,439,268		
Deferred compensation				
Fixed income mutual funds & ETFs	9,082	9,082		
Equity mutual funds & ETFs	36,883	36,883		
Assets carried at fair value	80,550,342	$ 80,550,342	$ -	$ -
Investments				
Money market funds & cash*	187,660			
Deferred compensation				
Money market funds & cash*	839			
Investments measured at net asset value**	1,164,432			
Total	**$ 81,903,273**			

Investments measured at net asset value and at cost are presented in these tables to permit reconciliation of the tables to the amounts presented in the statements of financial position.

C. Investments and 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 following assets and liabilities at December 31, 2016:

2016	Total	Level 1	Level 2	Level 3
Investments				
Fixed income mutual funds & ETFs	$ 59,909,188	$ 59,909,188	$ -	$ -
Equity mutual funds & ETFs	16,130,431	16,130,431		
Assets carried at fair value	76,039,619	$ 76,039,619	$ -	$ -
Investments				
Money market funds & cash*	18,295			
Deferred compensation				
Investments measured at net asset value**	904,252			
Total	**$ 76,962,166**			

*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.

**In accordance with generally accepted accounting principles, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

The investments using net asset value consist of insurance company separate accounts as well as target date funds. The fair values of these investments are determined based on the net asset values per share of the underlying investments as determined by the fund managers. Management believes the fund managers' estimates to be reasonable approximations of the fair value of the investments

Investments other than deferred compensation holdings consist of the following at December 31,:

	2017	2016
Money market funds	$ 187,660	$ 18,295
Equity mutual funds & ETFs	19,439,268	16,130,431
Fixed income mutual funds & ETFs	61,065,109	59,909,188
Total investments	**$ 80,692,037**	**$ 76,057,914**

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

	2017	2016
Dividends and interest	$ 1,803,098	$ 1,572,674
Net gain on investments	3,542,229	1,406,403
	$ 5,345,327	**$ 2,979,077**

D. DEFERRED COMPENSATION PLAN

The Conference maintains a nonqualified deferred compensation plan established under Section 457(b) of the Internal Revenue Code for eligible senior staff of the Conference, to which the participants make voluntary contributions. In 2012, the Conference began making discretionary contributions to the plan. The Conference made contributions of $109,377 and $78,960 to the deferred compensation plan for the years ended December 31, 2017 and 2016, respectively. Also, during the years ended December 31, 2017 and 2016, benefit distributions of $59,636 and $88,871, respectively, were made from the plan. Assets designated for this plan consist of insurance company separate accounts and target date funds and money market funds.

The Conference also maintains a nonqualified deferred compensation plan established under Section 457(f) of the Internal Revenue Code for eligible senior staff of the Conference, to which the Conference makes contributions. During the year ended December 31, 2017, the Conference contributed $43,243 to the plan. As of December 31, 2016, no contributions had been made to the plan. Assets designated for this plan consist of mutual funds and exchange traded funds.

E. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31,:

	2017	2016
NMLS licensing database	$ 59,962,220	$ 47,236,101
Computer equipment	634,955	510,605
Website development	2,157,217	840,185
Furniture and fixtures	962,331	1,464,452
Equipment	695,022	538,569
Leasehold improvements	2,065,196	2,065,196
	66,476,941	52,655,108
Less accumulated depreciation and amortization	(40,864,031)	(35,889,735)
Total property and equipment	**$ 25,612,910**	**$ 16,765,373**

F. DAY WITH THE COMMISSIONER

The Conference has co-sponsored certain "Day with the Commissioner" projects in various individual states. The liability on the Conference's consolidated statements of financial position represents net unexpended revenue that is available to the individual states.

G. Funds Held for Others

From time to time, in the normal course of transactions with states, the Conference holds amounts on account for individual states. At the direction of individual states, the Conference holds these funds for future use such as training or educational programs sponsored by the Conference. The balance of these accounts was $1,603 and $37,947 at December 31, 2017 and 2016, respectively.

As a result of the National Mortgage Settlement in 2012, $65,000,000 was distributed to the Conference, of which, $16,000,000 was granted directly to the Conference for creating a State Regulatory Fund. The remaining $49,000,000 was to be distributed to the 49 states which were a party to the settlement with the Conference acting as the escrow agent. Since 2012 CSBS has distributed the funds to the states as directed by the states. As of December 31, 2017 and 2016, the Conference held $2,065,873 and $2,585,099, respectively, due to 5 states.

H. Retirement Plan

401(k) Plan: The Conference has a defined contribution plan for its employees under section 401(k) of the Internal Revenue Code. Elective contributions can be made by all employees 21 years of age or older. The Conference makes a non-elective contribution equal to 3% of each participant's eligible salary. In addition, the Conference matches each participant's elective deferrals up to 5% of eligible salary. The Conference may also make discretionary contributions to the plan. Vesting is determined based on the nature of each plan contribution. The Conference's total contributions for the years ended December 31, 2017 and 2016 were $1,759,342 and $1,590,127, respectively.

I. Classifications of Net Assets

Unrestricted, undesignated: Those net assets whose use is not restricted by donors or internally-designated for other uses.

Unrestricted, designated for reserves and development: The Conference has designated a portion of its unrestricted net assets as reserves to ensure that CSBS and affiliates are financially prepared to meet the needs for planned system enhancements as well as uninsurable risks. Under its specific reserve policy, the Conference defines reserves as unrestricted net assets less investments in fixed assets and capitalized system and test development costs.

The following represents the reserve balances by entity at December 31,:

	2017	2016
CSBS	$ 4,900,003	$ 4,656,099
Foundation	2,471,493	1,780,591
SRR	108,736,675	99,760,458
Total reserves	**$ 116,108,171**	**$ 106,197,148**

I. CLASSIFICATIONS OF NET ASSETS - CONTINUED

Temporarily restricted: Temporarily restricted net assets include those net assets whose use by the Conference has been donor restricted by specified time or purpose limitations. The Conference's temporarily restricted net assets consist of $15,667,063 and $15,723,292 as of December 31, 2017 and 2016 respectively, restricted for use for the purposes of the State Regulatory Fund (see Note G) as well as grants contributed by CSBS and SRR to the Foundation for specific programmatic purposes.

Permanently Restricted Net Assets: Permanently restricted net assets consist of the Samuel Weinrott Memorial Scholarship Fund. The donors have stipulated that the corpus of the fund must remain in perpetuity. The earnings from the fund are restricted to provide scholarships to bank examiners at graduate schools for banking. The balance of the fund at both December 31, 2017 and 2016 was $11,138.

J. COMMITMENTS AND CONTINGENCIES

Leases: In May 2011, the Conference signed an operating lease for office space at 1129 20th Street NW, Washington, D.C., which expires in April 2023. The lease contains an annual 2.5 percent rent escalation and requires the Conference to pay its proportionate share of operating expenses and real estate taxes. The Conference was provided a tenant allowance of $1,488,297 and 9.5 months of rental abatement as incentives to lease the space.

In April 2014, the Conference signed an operating lease for overflow office space for SRR at 1919 M Street NW, Washington, D.C., commencing on May 1, 2014 and expiring on August 31, 2026 with monthly payments of approximately $32,800. The lease contains an annual 2.5 percent rent escalation and requires the Conference to pay its proportionate share of operating expenses and real estate taxes. The lease agreement includes various rental abatements and a tenant improvement allowance of $724,240.

In connection with the 1919 M Street leased space, the Conference is also required to maintain a standby letter of credit of approximately $131,000. As of December 31, 2017 and 2016, respectively, no amounts have been drawn on the letter of credit.

In April 2016, the Conference signed an operating lease for additional space at 1129 20th Street NW, Washington, D.C., which expired February 28, 2017, with monthly payments of approximately $8,500.

In August 2016, the Conference signed an operating lease for additional space at 1129 20th Street NW, Washington, D.C, commencing on September 16, 2016 and expiring June 1, 2022 with monthly payments of approximately $60,900. As a result of entering into this lease, the Conference has been able to locate all of its employees at 1129 20th Street.

In June 2017, the Conference entered into an agreement to sublease its space at 1919 M Street effective August 2017 through March 2023. Monthly sublease payments of approximately $30,000 include base rent that escalates 4.5% each year. The subtenant's security deposit of $57,336 relating to this lease is included within deferred revenue in the statement of financial position as of December 31, 2017. Rental income is recognized on a straight-line basis over the lease term. Sublease income for the year ended December 31, 2017 was $148,858.

During March 2018, the Conference signed an operating lease for additional office space at 1129 20th Street, NW, Washington DC through February 2019 with the option to renew the lease for another six months. Monthly payments are approximately $12,000.

J. Commitments and Contingencies – Continued

The Conference is recognizing the benefit of the tenant improvement allowances and rental abatements on a straight-line basis over the life of the leases. The unrecognized components of these items are presented as deferred rent on the consolidated statement of financial position.

Rent expenses under these office space lease agreements amounted to approximately $2,100,000 and $1,782,000 for the years ended December 31, 2017 and 2016, respectively.

The following represents the future minimum lease payments under the office leases net of sublease payments (1919 M Street) as of December 31, 2017:

Year Ending December 31,:	Lease Payments	Sublease Payments	Net Lease Payments
2018	$ 2,046,773	$ (350,464)	$ 1,696,309
2019	2,111,827	(366,235)	1,745,592
2020	2,181,384	(382,716)	1,798,668
2021	2,248,326	(399,938)	1,848,388
2022	1,865,455	(417,935)	1,447,520
Thereafter	2,178,756	(107,176)	2,071,580
Total future minimum lease payments	$ 12,632,521	$ (2,024,464)	$ 10,608,057

Vendor relationship: SRR has contracted with the Financial Industry Regulatory Authority, Inc. (FINRA) to develop and host NMLS. FINRA also provides 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 the Conference.

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 redesign of the NMLS is being performed by PwC and the services performed by FINRA will be gradually phased out. Budgeted expenditures range between $42 million and $50 million and the project is expected to be completed over several years.

K. Functional Presentation of Expenses

The Conference provides various program services to its members. Expenses related to providing these services for the years ended December 31 are as follows:

	2017	2016
Program services		
NMLS	$ 57,560,724	$ 52,920,034
Education	3,315,533	3,299,005
Regulatory and Legislative	4,506,358	4,234,053
Communications	326,309	109,890
Total program services	65,708,924	60,562,982
Supporting services		
General and administrative	2,084,936	1,876,539
Marketing	95,186	79,220
Total supporting services	2,180,122	1,955,759
Total expenses	$ 67,889,046	$ 62,518,741

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Independent Auditor's Report on the Supplementary Information

To the Board of Directors
Conference of State Bank Supervisors, Inc. and Affiliates

We have audited the consolidated financial statements of the Conference of State Bank Supervisors, Inc. and Affiliates (the Conference) as of and for the years ended December 31, 2017 and 2016, and our report thereon dated April 18, 2018, which expressed an unmodified opinion on those financial statements, appears on page one. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial information on the following two pages is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Tate & Tryon

Washington, DC
April 18, 2018

Consolidating Statement of Financial Position

December 31, 2017	CSBS	Foundation	SRR	Eliminations	Total
Assets					
Cash and cash equivalents	$ 8,191,163	$ 1,223,776	$ 56,376,308	$ -	**$ 65,791,247**
Accounts receivable, net	-	39,548	606,576	-	**646,124**
Investments	20,536,132	1,828,773	58,327,132	-	**80,692,037**
Prepaid expenses and other	1,289,164	89,238	114,192	-	**1,492,594**
Deferred compensation	1,211,236	-	-	-	**1,211,236**
Property and equipment, net	3,550,457	19,089	22,043,364	-	**25,612,910**
Capitalized test development costs, net	-	-	11,818	-	**11,818**
Due from affiliates	253,058	191,074	395,163	(839,295)	**-**
Investment in subsidiary	130,791,857	-	-	(130,791,857)	**-**
Total assets	$ 165,823,067	$ 3,391,498	$ 137,874,553	$ (131,631,152)	**$ 175,457,966**
Liabilities and Net Assets					
Accounts payable and accrued expenses	$ 1,908,856	$ 119,526	$ 5,879,001	$ -	**$ 7,907,383**
Day with the Commissioner	130,548	-	-	-	**130,548**
Deferred revenue	2,542,589	609,242	1,048,684	-	**4,200,515**
Deferred rent	2,529,713	-	-	-	**2,529,713**
Funds held for others	2,067,476	-	-	-	**2,067,476**
Deferred compensation	1,211,236	-	-	-	**1,211,236**
Due to affiliates	548,757	135,527	155,011	(839,295)	**-**
Total liabilities	10,939,175	864,295	7,082,696	(839,295)	**18,046,871**
Net assets					
Unrestricted					
Undesignated	25,605,634	19,089	22,055,182	(22,055,182)	**25,624,723**
Designated for reserves and development	113,636,678	2,471,493	108,736,675	(108,736,675)	**116,108,171**
Total unrestricted net assets	139,242,312	2,490,582	130,791,857	(130,791,857)	**141,732,894**
Temporarily restricted	15,641,580	25,483	-	-	**15,667,063**
Permanently restricted	-	11,138	-	-	**11,138**
Total net assets	154,883,892	2,527,203	130,791,857	(130,791,857)	**157,411,095**
Total liabilities and net assets	$ 165,823,067	$ 3,391,498	$ 137,874,553	$ (131,631,152)	**$ 175,457,966**

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Activities

Year Ended December 31, 2017	CSBS	Foundation	SRR	Eliminations	Total
Unrestricted activities					
Revenue					
NMLS processing fees	$ -	$ -	$ 50,734,506	$ -	**$ 50,734,506**
NMLS professional services	-	-	22,364,710	-	**22,364,710**
Dues	5,793,202	-	-	-	**5,793,202**
Registration fees	38,804	1,757,607	258,196	-	**2,054,607**
Accreditation of banking & mortgage departments	-	243,748	-	-	**243,748**
Other income	908,000	-	-	(900,000)	**8,000**
Investment income	1,716,499	138,119	3,490,709	-	**5,345,327**
Grants from affiliates	-	1,325,000	-	(1,325,000)	**-**
Income on Equity Investment in Subsidiary	17,297,651	-	-	(17,297,651)	**-**
Net assets released from restriction	-	56,229	-	-	**56,229**
Total unrestricted revenue	25,754,156	3,520,703	76,848,121	(19,522,651)	**86,600,329**
Expense					
Direct program expenses:					
NMLS system operations	-	-	13,561,479	-	**13,561,479**
NMLS professional services	-	-	10,769,669	-	**10,769,669**
NMLS - call center	-	-	3,805,441	-	**3,805,441**
Professional services - legal, audit & other	654,126	361,021	7,442,332	(900,000)	**7,557,479**
Staff, board & member travel/meetings	303,659	1,524,131	1,316,997	-	**3,144,787**
Grants to affiliates	725,000	-	600,000	(1,325,000)	**-**
Total direct program expenses	1,682,785	1,885,152	37,495,918	(2,225,000)	**38,838,855**
Staffing & administrative expenses:					
Salaries and benefits	4,502,457	1,143,726	16,324,773	-	**21,970,956**
Technology & general office	709,125	375,023	3,957,397	-	**5,041,545**
Rent and occupancy	204,992	60,316	1,772,382	-	**2,037,690**
Total supporting services	5,416,574	1,579,065	22,054,552	-	**29,050,191**
Total expense	7,099,359	3,464,217	59,550,470	(2,225,000)	**67,889,046**
Change in unrestricted net assets	18,654,797	56,486	17,297,651	(17,297,651)	**18,711,283**
Temporarily restricted activities					
Net assets released from restriction	-	(56,229)	-	-	**(56,229)**
Change in temporarily restricted net assets	-	(56,229)	-	-	**(56,229)**
Change in net assets	18,654,797	257	17,297,651	(17,297,651)	**18,655,054**
Net assets, beginning of year	136,229,095	2,526,946	113,494,206	(113,494,206)	**138,756,041**
Net assets, end of year	$ 154,883,892	$ 2,527,203	$ 130,791,857	$ (130,791,857)	**$ 157,411,095**