Audited Consolidated Financial Statements and Other Financial Information

CONFERENCE OF STATE BANK SUPERVISORS, INC. AND AFFILIATES

December 31, 2011

Contents

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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 statements of financial position of the Conference of State Bank Supervisors, Inc. and Affiliates (the Conference) as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Conference's management. Our responsibility is to express an opinion on these consolidated 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 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, 2011 and 2010, 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.

Tate & Tryon

Washington, DC
June 28, 2012

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Financial Position

December 31,	**2011**	2010
Assets		
Cash and cash equivalents - Note B	**$ 30,773,986**	$ 13,672,883
Accounts receivable, net of allowance for doubtful accounts of $21,236 and $57,098 for 2011 and 2010, respectively	**2,025,477**	2,028,093
Investments - Notes B & C	**2,671,074**	2,626,195
Prepaid expenses and other	**542,146**	640,812
Deferred compensation - Notes C & D	**481,429**	371,374
Property and equipment, net - Note E	**22,188,977**	17,944,531
Capitalized test development costs, net	**1,589,173**	1,884,715
Total assets	**$ 60,272,262**	$ 39,168,603
Liabilities and Net Assets		
Accounts payable and accrued expenses - Note K	**$ 7,463,774**	$ 10,077,742
Day with the Commissioner - Note F	**61,239**	68,704
Deferred revenue	**3,048,431**	2,668,982
Deferred rent - Note K	**2,020,706**	-
Funds held for others - Note G	**27,463**	51,272
Deferred compensation - Notes C & D	**481,429**	371,374
Lines of credit payable - Note H	**-**	19,063
Accrued pension cost - Note I	**1,832,809**	2,768,027
Total liabilities	**14,935,851**	16,025,164
Commitments - Note K	-	-
Net assets - Note J		
Unrestricted		
Undesignated	**23,479,746**	20,897,517
Designated for reserves and development - SRR	**18,453,220**	-
Designated for future programs - EFSBS	**2,029,447**	2,234,784
Total unrestricted net assets	**43,962,413**	23,132,301
Temporarily restricted	**1,362,860**	-
Permanently restricted	**11,138**	11,138
Total net assets	**45,336,411**	23,143,439
Total liabilities and net assets	**$ 60,272,262**	$ 39,168,603

See accompanying notes to consolidated financial statements.
Certain 2010 amounts have been reclassified for comparative purposes.

Conference of State Bank Supervisors, Inc. and Affiliates
Consolidated Statements of Activities
Year ended December 31, 2011
(With comparative totals for the year ended December 31, 2010)

Year Ended December 31,	2011 Operations	2011 Designated for reserves and development	2011 Total unrestricted activity	2011 Temporarily restricted activity	2011 Permanently restricted actvity	Total 2011	Total 2010
Revenue							
NMLS processing fees	$ 31,606,326	$ 10,535,442	$ 42,141,768	$ -	$ -	**$ 42,141,768**	$ 17,586,303
NMLS professional services	26,122,510	8,707,503	34,830,013	-	-	**34,830,013**	46,333,424
Dues	4,852,651	-	4,852,651	-	-	**4,852,651**	5,115,725
Registration fees	2,077,064	-	2,077,064	-	-	**2,077,064**	1,441,253
NMLS state development contributions	-	510,275	510,275	-	-	**510,275**	3,047,013
Accreditation of banking & mortgage departments	244,000	-	244,000	-	-	**244,000**	195,000
Other income	68,887	-	68,887	-	-	**68,887**	383,857
Investment income	47,281	-	47,281	10	-	**47,291**	287,906
Interest on SRR line of credit	-	-	-	-	-	**-**	205,096
Net assets released from restriction	37,150	-	37,150	(37,150)	-	**-**	-
Total revenue	65,055,869	19,753,220	84,809,089	(37,140)	-	84,771,949	74,595,577
Expenses							
Program expenses							
NMLS professional services	24,538,751	-	24,538,751	-	-	**24,538,751**	28,397,304
NMLS system operations	15,105,979	-	15,105,979	-	-	**15,105,979**	10,028,082
NMLS - call center	7,353,250	-	7,353,250	-	-	**7,353,250**	6,706,055
Staff, board & member travel/meetings	1,459,282	-	1,459,282	-	-	**1,459,282**	1,286,393
Professional services - legal, audit & other	1,052,586	-	1,052,586	-	-	**1,052,586**	693,536
Total program expenses	49,509,848	-	49,509,848	-	-	**49,509,848**	47,111,370
Staffing & administrative expenses							
Salaries and benefits	9,116,818	-	9,116,818	-	-	**9,116,818**	8,055,427
Technology & general office	1,354,521	-	1,354,521	-	-	**1,354,521**	1,329,811
Rent and occupancy	1,262,339	-	1,262,339	-	-	**1,262,339**	819,820
Depreciation, insurance & administration	564,329	-	564,329	-	-	**564,329**	449,303
Total staffing & administrative expenses	12,298,007	-	12,298,007	-	-	**12,298,007**	10,654,361
Total expenses	61,807,855	-	61,807,855	-	-	**61,807,855**	57,765,731
Net change from operations	3,248,014	19,753,220	23,001,234	(37,140)	-	**22,964,094**	16,829,846
Accrued loss on contingent liability - Note K	-	(1,300,000)	(1,300,000)	-	-	**(1,300,000)**	-
Pension related changes other than net periodic costs	528,878	-	528,878	-	-	**528,878**	61,771
Change in net assets	3,776,892	18,453,220	22,230,112	(37,140)	-	**22,192,972**	16,891,617
Inter-entity transfer of net assets to restricted class	(1,400,000)		(1,400,000)	1,400,000	-	**-**	-
Net assets, beginning of year	23,132,301	-	23,132,301	-	11,138	**23,143,439**	6,251,822
Net assets, end of year	$ 25,509,193	$ 18,453,220	$ 43,962,413	$ 1,362,860	$ 11,138	**$ 45,336,411**	$ 23,143,439

See accompanying notes to consolidated financial statements.
Certain 2010 amounts have been reclassified for comparative purposes.

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Cash Flows

Year Ended December 31,	**2011**	2010
Cash Flows From Operating Activities		
Change in net assets	**$ 22,192,972**	$ 16,891,617
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	**4,483,465**	3,298,393
Loss on disposal of property and equipment	**41,552**	11,475
Decrease in allowance for doubtful accounts	**(35,862)**	(1,640)
Gain on investments, net	**(52)**	(247,723)
Changes in assets and liabilities:		
Accounts receivable	**38,478**	(1,062,861)
Prepaid expenses and other	**98,666**	(405,105)
Accounts payable and accrued expenses	**(2,613,968)**	6,151,923
Day with the Commissioner	**(7,465)**	14,813
Deferred revenue	**379,449**	(642,307)
Deferred rent	**2,020,706**	-
Funds held for others	**(23,809)**	12,876
Deferred compensation liability	**110,055**	57,899
Accrued pension cost	**(935,218)**	263,625
Total adjustments	**3,555,997**	7,451,368
Net cash provided by operating activities	**25,748,969**	24,342,985
Cash Flows From Investing Activities		
Net purchases of property and equipment	**(8,407,544)**	(8,053,080)
Costs paid in developing tests	**(66,377)**	(1,050,995)
Proceeds from the sale and redemption of investments	**799**	648
Purchases of investments	**(45,626)**	(39,422)
Purchases of deferred compensation assets	**(110,055)**	(57,899)
Net cash used in investing activities	**(8,628,803)**	(9,200,748)
Cash Flows From Financing Activities		
Proceeds from lines of credit	**-**	95,382
Payments on line of credit balances	**(19,063)**	(5,071,082)
Net cash used in financing activities	**(19,063)**	(4,975,700)
Net increase in cash and cash equivalents	**17,101,103**	10,166,537
Cash and cash equivalents, beginning of year	**13,672,883**	3,506,346
Cash and cash equivalents, end of year	**$ 30,773,986**	$ 13,672,883
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	**$ 2,982**	$ 428,797

See accompanying notes to consolidated financial statements.
Certain 2010 amounts have been reclassified for comparative purposes.

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 Education Foundation of State Bank Supervisors (the Foundation) was formed in January 1985 to carry on the educational and scholarship activities of state banking department personnel.

State Regulatory Registry LLC (SRR) was formed in September 2006 to develop and operate the Nationwide Mortgage Licensing System (NMLS) as a 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.

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 12, 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 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. As such, in accordance with the Revenue Reconciliation Act of 1993, CSBS had elected to pay the proxy tax on its lobbying expenditures for the years ended December 31, 2011 and 2010. CSBS recognized proxy tax expense of $51,063 and $117,881 for the years ended December 31, 2011 and 2010, respectively. The tax is included in general and administrative expenses on the accompanying consolidated statements of activities.

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 tax purposes.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Uncertain income tax positions: The Organization 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 2008 through 2011 to be open for examination by taxing authorities.

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.

SRR is a temporary custodian of funds collected from mortgage licensees who use the NMLS. These funds are not recorded on SRR's balance sheet. The funds are held in a banking/sweep account for approximately eight days in order to assure that funds collected through ACH and credit card charges have time to clear the banking system; then SRR remits the collected funds to the appropriate states and transfers the portion belonging to SRR as a processing fee to its own operating account. Cash balances held in this banking account were $4,423,551 and $536,563 as of December 31, 2011 and 2010, respectively.

Accounts receivable: Accounts receivable consist primarily of amounts owed from customers for mortgage database processing fees, membership dues, conference & seminar registrations, online courses, and sales of publications. 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 $1,000 and depreciate them over the following estimated useful lives using the straight-line method, with no salvage value:

Furniture and equipment	3-10 years
Automobiles	5 years

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 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 unique state-specific test components which all state-licensed mortgage loan originators registering on the NMLS are required to take. As of December 31, 2011 and 2010, SRR had capitalized a total of $2,337,972 and $2,271,595, respectively, related to the development of these tests.

A. Summary of Significant Accounting Policies - Continued

SRR is amortizing these test development costs over an estimated useful life of five years. During the year ended December 31, 2011 and 2010, amortization expense of $361,919 and $289,120, respectively, is included in general and administrative expenses on the accompanying consolidated statements of activities.

Net assets: Net assets are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. See Note J for a description of the Conference's significant net asset classifications.

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 L. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent events: Subsequent events have been evaluated through June 28, 2012, 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 also invests funds in professionally managed portfolios containing equity mutual funds. 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.

Vendor relationship: The Conference utilizes Financial Industry Regulatory Authority, Inc. (FINRA) to provide significant development and support services for the NMLS. As such, a disruption in the capabilities provided by FINRA could have a detrimental impact on the Conference.

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.

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, 2011:

2011	Total	Level 1	Level 2	Level 3
Investments	$ 2,671,074	$ 2,671,074	$ -	$ -
Deferred compensation assets	481,429	481,429		
Total	**$ 3,152,503**	**$ 3,152,503**	**$ -**	**$ -**

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, 2010:

2010	Total	Level 1	Level 2	Level 3
Investments	$ 2,626,195	$ 2,626,195	$ -	$ -
Deferred compensation assets	371,374	371,374		
Total	**$ 2,997,569**	**$ 2,997,569**	**$ -**	**$ -**

C. Investments and Fair Value Measurements - Continued

Investments consist of the following at December 31,:

	2011	2010
Money market funds	$ 433,793	$ 434,548
Equity mutual funds	2,237,281	2,191,647
Total investments	**$ 2,671,074**	**$ 2,626,195**

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

	2011	2010
Dividends and interest	$ 47,239	$ 40,183
Net gain on investments	52	247,723
	$ 47,291	**$ 287,906**

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. The Conference made no contributions to the deferred compensation plan for the years ended December 31, 2011 and 2010. Assets designated for this plan consist of mutual funds.

E. Property and Equipment

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

	2011	2010
Furniture and fixtures	$ 475,378	$ 311,005
Equipment	12,707	119,797
Computer equipment	865,249	844,461
Auto	46,847	46,847
Leasehold improvements	1,548,831	321,927
NMLS licensing database	29,167,141	22,409,543
Website development	513,588	513,588
	32,629,741	24,567,168
Less accumulated depreciation and amortization	(10,440,764)	(6,622,637)
Total property and equipment	**$ 22,188,977**	**$ 17,944,531**

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

Beginning in 2004, the State of Alabama provided the Foundation with money to run its annual Interstate Banking Meeting benefiting Alabama's banking industry, and later had the Foundation begin running its employee training seminar. From time to time, the State of Alabama provides additional funds for running its future meetings. The remaining balance of $25,860 and $49,669 at December 31, 2011 and 2010, respectively, represents monies left over from these meetings after expenses were paid, and will either be used for similar future meetings or returned to the State of Alabama, at the State's discretion.

During 2007, the State of Wyoming provided prepaid funding to SRR in order to cover its licensees' processing fees during its transition onto the NMLS. Following this transition process, a total of $1,603 of the prepaid funds remained unused as of December 31, 2011 and 2010, respectively. The State instructed the Conference to hold these excess funds until a future use can be determined.

H. LINES OF CREDIT PAYABLE

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 NMLS. 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.

During the year ended December 31, 2009, interest was assessed at 6%. From January 1, 2010 onward, interest is assessed at a variable rate equal to 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 prime rate at January 1 remains in effect for the remainder of the calendar year. At December 31, 2011 and 2010, the amount borrowed and outstanding by SRR, including accrued interest, totaled $0 and $19,063, respectively. Interest expense related to the line of credit totaled $2,982 and $81,881 for the years ended December 31, 2011 and 2010, 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 NMLS. 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 equal to 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, 2011 and 2010, there were no amounts borrowed or outstanding by SRR. Interest expense from the line of credit totaled $0 and $13,501 for the years ended December 31, 2011 and 2010, respectively.

I. RETIREMENT PLANS

<u>Pension Plan:</u> The Conference maintains a non-contributory defined benefit retirement plan covering all employees who are 21 years of age or older and have completed one year of service. Normal retirement benefits are based on the lesser of (a) the accrued benefit as of December 31, 1995 plus 2.67% of average compensation multiplied by years of participation (to a maximum of 15) after December 31, 1995, or (b) forty percent of average compensation.

Effective July 1, 2011, the plan was terminated. As such, all future benefit accruals ceased as of July 1, 2011 and no new entrants were allowed into the plan. For accounting purposes, the termination of the plan is considered a curtailment. Therefore, the pension obligation as of December 31, 2011 incorporates the impact of the curtailment.

I. RETIREMENT PLANS - CONTINUED

The Conference intends to settle all of the plan’s obligations during 2012. At present, the Conference anticipates that it will contribute $1,950,000 to the plan during 2012 in order to allow for the plan to settle its obligations.

The measurement date used to determine pension benefits was December 31 for each of the years ended 2011 and 2010.

The following table sets forth the plan's funded status for the years ended December 31,:

	2011	2010
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 6,642,069	$ 5,681,949
Effect of curtailment	(1,891,588)	-
Service cost	670,483	678,085
Interest cost	250,441	305,437
Actuarial loss	1,015,340	228,940
Benefits paid	(399,893)	(252,342)
Projected benefit obligation at end of year	**$ 6,286,852**	**$ 6,642,069**
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 3,874,042	$ 3,177,547
Actual return on plan assets	191,344	448,837
Contributions by the Conference (employer)	788,550	500,000
Benefits paid to participants during year	(399,893)	(252,342)
Fair value of plan assets at end of year	**$ 4,454,043**	**$ 3,874,042**
Funded status of plan at end of year	**$ (1,832,809)**	**$ (2,768,027)**

The accumulated benefit obligation was $6,286,852 and $4,750,481 at December 31, 2011 and 2010, respectively.

In order to recognize the funded status of the plan, the following amounts, which have not yet been included in net periodic benefit cost, have been recognized as changes in unrestricted net assets in the consolidated statements of activities for the years ended December 31,:

	2011	2010
Total net gain	$ 1,092,683	$ (68,520)
Prior service credit	-	4,846
Transition asset	1,903	1,903
Amount recognized due to curtailment	(1,623,464)	-
Net addition to unrestricted net assets	**$ (528,878)**	**$ (61,771)**

I. Retirement Plans - Continued

As of December 31, 2011, the Conference had accumulated $1,094,586 of accumulated actuarial losses within unrestricted net assets. If the plan's obligations are completely settled during 2012, the Conference expects to recognize the entire $1,094,586 within net periodic benefit cost during the fiscal year ending December 31, 2012. Any difference between the actual cost of distribution and the estimate included as of December 31, 2011 will adjust the final recognition of experience gains/losses.

Of the $61,771 recognized as a charge to unrestricted net assets for the year ended December 31, 2010, $61,205 of the total net loss, $4,846 of the prior service credit, and $1,903 of the transition asset were recognized in net periodic benefit cost during the fiscal year ended December 31, 2011.

Components of the net periodic benefit cost are as follows for the years ended December 31,:

	2011	2010
Service cost	$ 670,483	$ 678,085
Interest cost	250,441	305,437
Expected return on plan assets	(268,687)	(221,560)
Amortization of net loss	-	70,183
Amortization of prior service credit	-	(4,846)
Amortization of transition asset	(1,903)	(1,903)
Effect of curtailment	(268,124)	-
Net periodic pension cost	**$ 382,210**	**$ 825,396**

The following are the weighted-average assumptions used in the actuarial valuation for the years ended December 31,:

	2011	2010
Discount rate - benefit obligation	5.00%	5.75%
Expected long-term rate of return on plan assets	7.25%	7.25%
Rate of increase in compensation	N/A	4.00%

The expected long-term rate of return on plan assets reflects the almost equivalent investment of the plan assets in equities and fixed income funds and an analysis of the average rate of return of the S&P 500 Index and the Lehman Brothers Government/Corporate Index.

Historically, the investment strategy of the plan was to promote growth and income of the plan assets. However, in 2011, after the Board terminated the pension plan, the Conference adopted a new investment policy for the plan assets that emphasized preservation of capital. The fair value of plan assets consists of the following at December 31,:

	2011		2010	
Equity funds - insurance separate accounts	$ 361,918	8%	$ 2,061,132	53%
Fixed income funds - insurance separate accounts	3,084,285	69%	1,812,890	47%
Money market funds - insurance separate accounts	1,007,840	23%	20	0%
Total fair value of plan assets	**$ 4,454,043**	100%	**$ 3,874,042**	100%

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The plan's assets were valued using "Level 2" inputs (see Note C).

I. Retirement Plans - Continued

If the plan's obligations are not entirely settled in 2012, estimated future benefits to be paid from the plan for each of the next five years and in the aggregate for the five years thereafter are as follows:

Year ending December 31,		
2012	$	890,000
2013		1,710,000
2014		35,000
2015		340,000
2016		230,000
2017 - 2021		570,000
	$	**3,775,000**

401(k) Plan: The Conference also has a defined contribution plan for its employees under section 401(k) of Internal Revenue Code. Elective contributions can be made by all employees 21 years of age or older. The Conference may make discretionary or employer matching contributions that are allocated on the basis of the participant's annual eligible contributions, up to 4%. Such contributions are fully vested when made. The Conference's total matching contributions for the years ended December 31, 2011 and 2010 were $222,301 and $196,526, respectively.

J. 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 a reserve for the continued future maintenance and upgrading of NMLS.

Unrestricted, designated for future programs: The Foundation has designated its unexpended, unrestricted net assets to be applied toward the development of future programs related to its exempt purpose.

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 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, 2011 and 2010 was $11,138.

K. Commitments and Contingencies

Leases: In May 2011, the Conference signed an operating lease for new office space in 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. The Conference is recognizing the benefit of the tenant improvement allowance and rental abatements on a straight-line basis over the life of the lease. The unrecognized components of these items are presented as deferred rent on the statement of financial position.

The Conference is also obligated for various lease agreements expiring through May 2012 for its previous office space. In conjunction with the move to the new office, the Conference subleased a portion of its previous office space. The future anticipated cash flows to be received from these subleases are less than the future minimum payments required by the office lease. Therefore, the Conference recorded an accrued loss related to the vacant and subleased office space of $65,775 as of December 31, 2011.

Rent expenses under these office space lease agreements amounted to approximately $1,197,472 and $789,000 for the years ended December 31, 2011 and 2010, respectively.

The following represents the future minimum lease payments as of December 31, 2011:

Year ending December 31,:	**Amount**
2012	$ 813,400
2013	734,367
2014	752,726
2015	771,544
2016	805,685
Thereafter	5,639,434
Total future minimum lease payments	$ 9,517,156

Contingent Liability: During 2011, SRR was a party to a lawsuit related to the initial funding of the NMLS. SRR has worked diligently with both in-house counsel and outside counsel to resolve the claim. Management believes there is a high probability of settling the claim during 2012. As such, for financial statement purposes, SRR has recorded a contingent liability for the anticipated settlement and related expenses in the amount of $1.3 million. The contingent liability is presented within accounts payable and accrued expenses on the December 31, 2011 statement of financial condition.

Purchase commitment: SRR has contracted with FINRA to develop and host the NMLS. FINRA also provides development support for the NMLS' education and testing components. Under the terms of the various contracts with FINRA, management projects it will be responsible for costs of approximately $8 million during 2012.

L. 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:

	2011	2010
Program services		
NMLS	$ 54,641,065	$ 49,351,189
Education	2,809,049	2,159,508
Regulatory	1,674,043	1,804,407
Legislative	739,558	1,217,022
Communications	410,598	808,647
Total program services	60,274,313	55,340,773
Supporting services		
General and administrative	1,452,884	2,301,544
Marketing	80,658	123,414
Total supporting services	1,533,542	2,424,958
Total expenses	$ 61,807,855	$ 57,765,731

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Independent Auditor's Report on the Other Financial 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, 2011 and 2010, and our report thereon dated June 28, 2012, which expressed an unqualified opinion on those financial statements, appears on page one. Our audits were 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
June 28, 2012

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Financial Position

December 31, 2011	CSBS	Foundation	SRR	Eliminations	Total
Assets					
Cash and cash equivalents	$ 4,730,338	$ 1,009,027	$ 25,034,621	$ -	**$ 30,773,986**
Accounts receivable, net	25,302	199,953	1,800,222	-	**2,025,477**
Investments	1,251,373	1,419,701	-	-	**2,671,074**
Prepaid expenses and other	483,953	58,193	-	-	**542,146**
Deferred compensation	481,429	-	-	-	**481,429**
Property and equipment, net	1,759,443	356,465	20,073,069	-	**22,188,977**
Capitalized test development costs, net	-	-	1,589,173	-	**1,589,173**
Due from affiliates	10,571,281	3,039,473	7,505,623	(21,116,377)	**-**
Investment in subsidiary	40,026,382	-	-	(40,026,382)	**-**
Total assets	$ 59,329,501	$ 6,082,812	$ 56,002,708	$ (61,142,759)	**$ 60,272,262**
Liabilities and Net Assets					
Accounts payable and accrued expenses	$ 703,045	$ 34,999	$ 6,725,730	$ -	**$ 7,463,774**
Day with the Commissioner	61,239	-	-	-	**61,239**
Deferred revenue	1,904,018	302,104	842,309	-	**3,048,431**
Deferred rent	2,020,706	-	-	-	**2,020,706**
Funds held for others	1,603	25,860	-	-	**27,463**
Deferred compensation	481,429	-	-	-	**481,429**
Lines of credit payable	-	-	-	-	**-**
Accrued pension cost	1,832,809	-	-	-	**1,832,809**
Due to affiliates	10,391,686	2,316,404	8,408,287	(21,116,377)	**-**
Total liabilities	17,396,535	2,679,367	15,976,326	(21,116,377)	**14,935,851**
Net assets					
Unrestricted					
Undesignated	23,479,746	-	21,573,162	(21,573,162)	**23,479,746**
Designated for future programs	-	2,029,447	-	-	**2,029,447**
Designated for reserves and development	18,453,220	-	18,453,220	(18,453,220)	**18,453,220**
Total unrestricted net assets	41,932,966	2,029,447	40,026,382	(40,026,382)	**43,962,413**
Temporarily restricted	-	1,362,860	-	-	**1,362,860**
Permanently restricted	-	11,138	-	-	**11,138**
Total net assets	41,932,966	3,403,445	40,026,382	(40,026,382)	**45,336,411**
Total liabilities and net assets	$ 59,329,501	$ 6,082,812	$ 56,002,708	$ (61,142,759)	**$ 60,272,262**

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Activities

Year Ended December 31, 2011	CSBS	Foundation	SRR	Eliminations	Total
Unrestricted activities					
Revenue					
NMLS processing fees	$ -	$ -	$ 42,141,768	$ -	**$ 42,141,768**
NMLS professional services	-	-	34,830,013	-	**34,830,013**
Dues	4,852,651	-	-	-	**4,852,651**
Registration fees	172,123	1,753,564	151,377	-	**2,077,064**
NMLS state development contributions	-	-	510,275	-	**510,275**
Accreditation of banking & mortgage departments	-	244,000	-	-	**244,000**
Other income	24,760	40,457	3,670	-	**68,887**
Investment income	25,664	21,047	570	-	**47,281**
Grants to affiliates	-	511,000	-	(511,000)	**-**
Income on Equity Investment in Subsidiary	20,740,392	-	-	(20,740,392)	**-**
Interest on SRR line of credit	65,471	-	-	(65,471)	**-**
Net assets released from restriction	-	37,150	-	-	**37,150**
Total unrestricted revenue	25,881,061	2,607,218	77,637,673	(21,316,863)	**84,809,089**
Expense					
Program expenses:					
NMLS professional services	-	-	24,538,751	-	**24,538,751**
NMLS system operations	30,083	-	15,075,896	-	**15,105,979**
NMLS - call center	-	-	7,353,250	-	**7,353,250**
Staff, board & member travel/meetings	572,937	704,385	181,960	-	**1,459,282**
Grants to affiliates	761,000	-	1,150,000	(1,911,000)	**-**
Professional services - legal, audit & other	256,208	299,842	496,536	-	**1,052,586**
Total program services	1,620,228	1,004,227	48,796,393	(1,911,000)	**49,509,848**
Staffing & administrative expenses:					
Salaries and benefits	2,554,128	1,386,438	5,176,252	-	**9,116,818**
Technology & general office	1,010,474	139,322	270,196	(65,471)	**1,354,521**
Rent and occupancy	362,291	155,268	744,780	-	**1,262,339**
Depreciation, insurance & administration	(549,721)	192,352	921,698	-	**564,329**
Total supporting services	3,377,172	1,873,380	7,112,926	(65,471)	**12,298,007**
Total expense	4,997,400	2,877,607	55,909,319	(1,976,471)	**61,807,855**
Net change from operations	20,883,661	(270,389)	21,728,354	(19,340,392)	**23,001,234**
Accrued loss on contingent liability	-	-	(1,300,000)		**(1,300,000)**
Pension related changes other than net periodic pension cost	151,788	65,052	312,038	-	**528,878**
Change in unrestricted net assets	21,035,449	(205,337)	20,740,392	(19,340,392)	**22,230,112**
Temporarily restricted activities					
Contributions and interest income	-	1,400,010	-	(1,400,000)	**10**
Net assets released from restriction	-	(37,150)	-	-	**(37,150)**
Change in temporarily restricted net assets	-	1,362,860	-	(1,400,000)	**(37,140)**
Change in net assets	21,035,449	1,157,523	20,740,392	(20,740,392)	**22,192,972**
Net assets, beginning of year	20,897,517	2,245,922	19,285,990	(19,285,990)	**23,143,439**
Net assets, end of year	$ 41,932,966	$ 3,403,445	$ 40,026,382	$ (40,026,382)	**$ 45,336,411**