Audited Consolidated Financial Statements
and Supplementary Information

CONFERENCE OF STATE BANK
SUPERVISORS, INC. AND AFFILIATES

December 31, 2018

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 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, 2018, 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 2017 consolidated financial statements and, in our report dated April 18, 2018 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, 2018, 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.

Adoption of Accounting Standards Update 2016-14

As described in Note A to the consolidated financial statements, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As required by the FASB, the Conference adopted the provisions of ASU 2016-14 during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding functional expenses and liquidity and the availability of resources. There was no change in the Conference's previously reported change in net assets as a result of the adoption of the ASU. Our opinion is not modified with respect to this matter.

Tate & Tryon

Washington, DC
April 22, 2019

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Financial Position

December 31,	2018	2017
Assets		
Cash and cash equivalents	**$ 84,232,063**	$ 65,791,247
Accounts receivable, net of allowance for doubtful accounts of $3,809 and $2,081 for 2018 and 2017, respectively	**925,466**	646,124
Investments	**79,645,693**	80,692,037
Prepaid expenses and other	**1,768,471**	1,492,594
Deferred compensation	**1,256,764**	1,211,236
Property and equipment, net	**19,741,544**	25,612,910
Capitalized test development costs, net	**-**	11,818
Total assets	**$ 187,570,001**	$ 175,457,966
Liabilities and Net Assets		
Accounts payable and accrued expenses	**$ 7,751,765**	$ 7,907,383
Day with the Commissioner	**140,687**	130,548
Deferred revenue	**4,243,504**	4,200,515
Deferred rent	**2,224,381**	2,529,713
Funds held for others	**1,847,517**	2,067,476
Deferred compensation	**1,256,764**	1,211,236
Total liabilities	**17,464,618**	18,046,871
Net assets		
Without donor restrictions		
Undesignated	**19,741,544**	25,624,723
Designated for reserves and development	**135,087,706**	116,108,171
Total net assets without donor restrictions	**154,829,250**	141,732,894
With donor restrictions	**15,276,133**	15,678,201
Total net assets	**170,105,383**	157,411,095
Total liabilities and net assets	**$ 187,570,001**	$ 175,457,966

See accompanying notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates
Consolidated Statements of Activities
Year ended December 31, 2018
(With comparative totals for the year ended December 31, 2017)

	2018					
	Operations (Undesignated)	**Designated for reserves and development**	**Total without donor restrictions**	**Total with donor restrictions**	**Total 2018**	**Total 2017**
Revenue						
NMLS processing fees	$ 42,184,348	$ 8,645,692	$ 50,830,040	$ -	**$ 50,830,040**	$ 50,734,506
NMLS professional services	17,298,542	3,545,338	20,843,880	-	**20,843,880**	22,364,710
Dues	6,099,680	-	6,099,680	-	**6,099,680**	5,793,202
Registration fees	2,183,506	-	2,183,506	-	**2,183,506**	2,054,607
Accreditation of banking & mortgage departments	240,000	-	240,000	-	**240,000**	243,748
Other income	3,094,000	-	3,094,000	-	**3,094,000**	8,000
Investment return	(295,833)	-	(295,833)	-	**(295,833)**	5,307,510
Net assets released from restriction	402,068	-	402,068	(402,068)	**-**	-
Total revenue	71,206,311	12,191,030	83,397,341	(402,068)	**82,995,273**	86,506,283
Expenses						
Direct program expenses						
NMLS system operations	11,967,375	-	11,967,375	-	**11,967,375**	13,561,479
NMLS professional services	10,986,091	-	10,986,091	-	**10,986,091**	10,769,669
NMLS - call center	4,629,532	-	4,629,532	-	**4,629,532**	3,805,441
Professional services - legal, audit & other	7,337,962	-	7,337,962	-	**7,337,962**	7,557,479
Staff, board & member travel/meetings	3,874,999	-	3,874,999	-	**3,874,999**	3,144,787
Total direct program expenses	38,795,959	-	38,795,959	-	**38,795,959**	38,838,855
Staffing & administrative expenses						
Salaries and benefits	24,533,490	-	24,533,490	-	**24,533,490**	21,970,956
Technology & general office	4,727,240	-	4,727,240	-	**4,727,240**	5,003,728
Rent and occupancy	2,244,296	-	2,244,296	-	**2,244,296**	2,037,690
Total staffing & administrative expenses	31,505,026	-	31,505,026	-	**31,505,026**	29,012,374
Total expenses	70,300,985	-	70,300,985	-	**70,300,985**	67,851,229
Change in net assets	905,326	12,191,030	13,096,356	(402,068)	**12,694,288**	18,655,054
Net assets, beginning of year	25,624,723	116,108,171	141,732,894	15,678,201	**157,411,095**	138,756,041
Designation of net assets to reserves	(6,788,505)	6,788,505	-	-	**-**	-
Net assets, end of year	$ 19,741,544	$ 135,087,706	$ 154,829,250	$ 15,276,133	**$ 170,105,383**	$ 157,411,095

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,	2018	2017
Cash Flows From Operating Activities		
Change in net assets	**$ 12,694,288**	$ 18,655,054
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	**4,469,220**	5,021,567
Loss on disposal of property and equipment	**1,948,221**	-
Net loss (gain) on investments	**3,280,734**	(3,542,229)
Changes in assets and liabilities:		
Accounts receivable	**(279,342)**	(36,362)
Prepaid expenses and other	**(275,877)**	(164,047)
Deferred compensation asset	**(45,528)**	(306,984)
Accounts payable and accrued expenses	**(155,618)**	2,427,682
Day with the Commissioner	**10,139**	29,559
Deferred revenue	**42,989**	457,294
Deferred rent	**(305,332)**	(79,962)
Deferred compensation liability	**45,528**	306,984
Total adjustments	**8,735,134**	4,113,502
Net cash provided by operating activities	**21,429,422**	22,768,556
Cash Flows From Investing Activities		
Purchases of property and equipment	**(534,257)**	(13,821,830)
Proceeds from the sale and redemption of investments	**38,649**	537,815
Purchases of investments	**(2,273,039)**	(1,629,709)
Net cash used in investing activities	**(2,768,647)**	(14,913,724)
Cash Flows From Financing Activities		
Disbursements of National Mortgage Settlement Funds and other funds held on behalf of States	**(219,959)**	(555,570)
Net cash used in financing activities	**(219,959)**	(555,570)
Net increase in cash and cash equivalents	**18,440,816**	7,299,262
Cash and cash equivalents, beginning of year	**65,791,247**	58,491,985
Cash and cash equivalents, end of year	**$ 84,232,063**	$ 65,791,247

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.

New accounting principle: The Financial Accounting Standards Board (FASB) issued *Accounting Standards Update 2016-14, Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The Conference adopted the provisions of ASU 2016-14 during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding functional expenses and liquidity and the availability of resources. There was no change in the Conference's previously reported change in net assets as a result of the adoption of the ASU. As permitted by the ASU, the Conference's footnote L regarding the presentation of functional expense is not reported on a comparative basis during the initial year of the ASU's adoption.

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, 2018 and 2017, SRR had capitalized a total of $1,009,642, related to the development of these tests. SRR has amortized these test development costs over an estimated useful life of five years. During the years ended December 31, 2018 and 2017, amortization expense was $11,818 and $47,274, respectively.

Net assets: Net assets are classified as with donor restrictions or without donor restrictions based on the existence or absence of donor-imposed restrictions. The Conference classifies certain components of its net assets without donor restrictions 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 L. Accordingly, costs primarily associated with personnel, professional fees, information technology, supplies, and other shared services have been allocated among the program and supporting services benefited on the basis of the labor costs utilized by each area. Costs related to occupancy such as rent, equipment depreciation, property taxes, leasehold improvements, and insurance expense are allocated based on an estimate of square footage occupied by each business unit.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reclassifications: As a result of the 2018 adoption of ASU 2016-14, the functional classification of certain costs were modified to conform to definitions within the ASU. Thus, 2017 functional expenses were reclassified to agree with the 2018 presentation of functional expenses. Amounts reported in Note L to the December 31, 2017 consolidated statement of activities were reclassified as follows:

	2017 as Previously Reported	Reclassifications	2017 as Currently Reported
Program services			
NMLS	$ 57,560,724	$ (10,671,744)	$ 46,888,980
Education	3,315,533	(105,380)	3,210,153
Regulatory and Legislative	4,506,358	303,572	4,809,930
Communications	326,309	(326,309)	-
Total program services	65,708,924	(10,799,861)	54,909,063
Supporting services			
General and administrative	2,084,936	10,857,230	12,942,166
Marketing	95,186	(95,186)	-
Total supporting services	2,180,122	10,762,044	12,942,166
Total expenses	$ 67,889,046	$ (37,817)	$ 67,851,229

$37,817 which represented 2017 investment expense was reclassified from expenses to be netted with investment income as part of the line item “investment return” as shown within revenues on the consolidated statement of activities.

Comparative totals: The consolidated financial statements and footnote disclosures for the year ended December 31, 2017 are presented only to provide a basis for comparison with 2018. The 2017 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, 2017, from which the summarized information was derived.

Subsequent events: Subsequent events have been evaluated through April 22, 2019, 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.

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, 2018:

2018	Total	Level 1	Level 2	Level 3
Investments				
Fixed income mutual funds & ETFs	$ 64,587,127	$ 64,587,127	$ -	$ -
Equity mutual funds & ETFs	15,038,856	15,038,856		
Deferred compensation				
Fixed income mutual funds & ETFs	18,366	18,366		
Equity mutual funds & ETFs	65,874	65,874		
Assets carried at fair value	$ 79,710,223	$ 79,710,223	$ -	$ -
Investments				
Money market funds & cash*	19,710			
Deferred compensation				
Money market funds & cash*	1,142			
Investments measured at net asset value**	1,171,382			
Total	**$ 80,902,457**			

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, 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**			

*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,:

	2018	2017
Money market funds	$ 19,710	$ 187,660
Equity mutual funds & ETFs	15,038,856	19,439,268
Fixed income mutual funds & ETFs	64,587,127	61,065,109
Total investments	**$ 79,645,693**	**$ 80,692,037**

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

	2018	2017
Dividends and interest	$ 3,023,551	$ 1,803,098
Net (loss) gain on investments	(3,280,734)	3,542,229
Investment expense	(38,650)	(37,817)
	$ (295,833)	**$ 5,307,510**

D. Liquidity

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

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

	2018	2017
Cash and cash equivalents	$ 84,232,063	$ 65,791,247
Investments	79,645,693	80,692,037
Accounts receivable	925,466	646,124
Total financial assets	164,803,222	147,129,408
Board-designated funds for future development	(56,499,314)	(57,779,809)
Donor-imposed restricted funds	(15,276,133)	(15,678,201)
Financial assets available to meet cash needs for general expenditures within one year	**$ 93,027,775**	**$ 73,671,398**

E. 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 and the Conference makes discretionary contributions. The Conference made contributions of $106,495 and $109,377 to the deferred compensation plan for the years ended December 31, 2018 and 2017, respectively. Also, during the years ended December 31, 2018 and 2017, benefit distributions of $38,518 and $59,636, respectively, were made from the plan. Assets designated for this plan consist of insurance company separate accounts, 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, 2018 and 2017, respectively, the Conference contributed $43,740 and $43,243 to the plan. Assets designated for this plan consist of mutual funds and exchange traded funds.

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. Property and Equipment

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

	2018	2017
NMLS licensing database	$ 58,015,003	$ 59,962,220
Computer equipment	951,918	634,955
Website development	1,987,174	2,157,217
Furniture and fixtures	975,085	962,331
Equipment	1,046,366	695,022
Leasehold improvements	2,065,196	2,065,196
	65,040,742	66,476,941
Less accumulated depreciation and amortization	(45,299,198)	(40,864,031)
Total property and equipment	**$ 19,741,544**	**$ 25,612,910**

H. 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 at both December 31, 2018 and 2017 was $1,603.

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, 2018 and 2017, the Conference held $1,845,914 and $2,065,873, respectively, due to 5 states.

I. 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, 2018 and 2017 were $1,835,195 and $1,759,342, respectively.

J. Classifications of Net Assets

Net assets without donor restrictions, undesignated: Those net assets whose use is not restricted by donors or internally-designated for other uses.

J. Classifications of Net Assets - Continued

Net assets without donor restrictions, 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,:

	2018	2017
CSBS	$ 5,599,416	$ 4,900,003
Foundation	2,560,584	2,471,493
SRR	126,927,706	108,736,675
Total reserves	**$ 135,087,706**	**$ 116,108,171**

Net assets with donor restrictions: Those net assets whose use by the Conference has been donor restricted by specified time or purpose limitations include the following:

Donor restrictions for specified purpose: Those net assets whose use by the Conference has been donor restricted by specified purpose limitations. The Conference's donor restricted net assets for specified purpose consist of $15,264,995 and $15,667,063 as of December 31, 2018 and 2017 respectively, restricted for use for the purposes of the State Regulatory Fund (see Note H).

Donor restrictions for specified time: Those net assets whose use by the Conference has been donor restricted by specified time limitations consist of the Samuel Weinrott Memorial Scholarship Fund held by the CSBS Education Foundation. 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, 2018 and 2017 was $11,138.

K. 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.

K. Commitments and Contingencies - Continued

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 years ended December 31, 2018 and 2017, respectively, was $357,258 and $148,858.

During March 2018, the Conference signed an operating lease for additional office space at 1129 20th Street, NW, Washington DC which expired in February 2019 and was not renewed. Monthly payments were approximately $12,000.

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 $2,000,000 and $2,100,000 for the years ended December 31, 2018 and 2017, respectively.

The following represents the future minimum lease payments under the office leases net of sublease payments (1919 M Street) as of December 31, 2018:

Year Ending December 31,:	Lease Payments	Sublease Payments	Net Lease Payments
2019	$ 2,135,827	$ (366,235)	$ 1,769,592
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
2023	808,404	(107,176)	701,228
Thereafter	1,370,352	-	1,370,352
Total future minimum lease payments	$ 10,609,748	$ (1,674,000)	$ 8,935,748

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 contract was subsequently terminated during 2018 when the Boards and management of SRR and CSBS decided to take the project in a different direction. The process to choose a new vendor is underway and a new vendor is expected to be selected in late 2019. Budgeted expenditures range between $42 million and $50 million and the project is expected to be completed over several years.

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:

	NMLS	Regulatory and Legislative	Education	Total Program Services	Management and General	Total
Expenses						
NMLS professional services	$ 10,986,091	$ -	$ -	$ 10,986,091	$ -	$ 10,986,091
NMLS system operations	11,967,375	-	-	11,967,375	-	11,967,375
NMLS - call center	4,629,532	-	-	4,629,532	-	4,629,532
Staff, board, and member travel and meetings	1,111,613	176,700	2,050,391	3,338,704	536,295	3,874,999
Professional services - legal, audit and other	5,305,302	66,461	217,561	5,589,324	1,748,638	7,337,962
Salaries and benefits	13,092,866	4,232,358	1,098,534	18,423,758	6,109,732	24,533,490
Technology and general office	1,238,924	383,027	266,450	1,888,401	2,838,839	4,727,240
Rent and occupancy	1,757,283	175,033	44,886	1,977,202	267,094	2,244,296
Total 2018 expenses by nature and function	**$ 50,088,986**	**$ 5,033,579**	**$ 3,677,822**	**$ 58,800,387**	**$ 11,500,598**	**$ 70,300,985**
Total 2017 expenses by function	**$ 46,888,980**	**$ 4,809,930**	**$ 3,210,153**	**$ 54,909,063**	**$ 12,942,166**	**$ 67,851,229**

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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, 2018 and 2017, and our report thereon dated April 22, 2019, 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 22, 2019

Consolidating Statement of Financial Position

December 31, 2018	CSBS	Foundation	SRR	Eliminations	Total
Assets					
Cash and cash equivalents	$ 8,020,544	$ 1,029,139	$ 75,182,380	$ -	**$ 84,232,063**
Accounts receivable, net	4,715	64,486	856,265	-	**925,466**
Investments	20,064,740	1,793,640	57,787,313	-	**79,645,693**
Prepaid expenses and other	1,462,047	137,447	168,977	-	**1,768,471**
Deferred compensation	1,256,764	-	-	-	**1,256,764**
Property and equipment, net	3,141,323	-	16,600,221	-	**19,741,544**
Due from affiliates	858,866	305,215	460,874	(1,624,955)	**-**
Investment in subsidiary	143,527,929	-	-	(143,527,929)	**-**
Total assets	$ 178,336,928	$ 3,329,927	$ 151,056,030	$ (145,152,884)	**$ 187,570,001**
Liabilities and Net Assets					
Accounts payable and accrued expenses	$ 2,073,267	$ 104,016	$ 5,574,482	$ -	**$ 7,751,765**
Day with the Commissioner	140,687	-	-	-	**140,687**
Deferred revenue	2,511,140	534,943	1,197,421	-	**4,243,504**
Deferred rent	2,224,381	-	-	-	**2,224,381**
Funds held for others	1,847,517	-	-	-	**1,847,517**
Deferred compensation	1,256,764	-	-	-	**1,256,764**
Due to affiliates	749,511	119,246	756,198	(1,624,955)	**-**
Total liabilities	10,803,267	758,205	7,528,101	(1,624,955)	**17,464,618**
Net assets					
Without donor restrictions					
Undesignated	19,741,544	-	16,600,223	(16,600,223)	**19,741,544**
Designated for reserves and development	132,527,122	2,560,584	126,927,706	(126,927,706)	**135,087,706**
Total net assets without donor restrictions	152,268,666	2,560,584	143,527,929	(143,527,929)	**154,829,250**
With donor restrictions	15,264,995	11,138	-	-	**15,276,133**
Total net assets	167,533,661	2,571,722	143,527,929	(143,527,929)	**170,105,383**
Total liabilities and net assets	$ 178,336,928	$ 3,329,927	$ 151,056,030	$ (145,152,884)	**$ 187,570,001**

Consolidating Statement of Activities

Year Ended December 31, 2018	CSBS	Foundation	SRR	Eliminations	Total
Activities without donor restrictions					
Revenue					
NMLS processing fees	$ -	$ -	$ 50,830,040	$ -	**$ 50,830,040**
NMLS professional services	-	-	20,843,880	-	**20,843,880**
Dues	6,099,680	-	-	-	**6,099,680**
Registration fees	70,105	1,864,650	248,751	-	**2,183,506**
Accreditation of banking & mortgage departments	-	240,000	-	-	**240,000**
Other income	1,508,000	-	3,086,000	(1,500,000)	**3,094,000**
Investment return	(422,775)	(35,129)	162,071	-	**(295,833)**
Grants from affiliates	-	1,821,582	-	(1,821,582)	**-**
Income on Equity Investment in Subsidiary	12,736,072	-	-	(12,736,072)	**-**
Net assets released from restriction	376,585	25,483	-	-	**402,068**
Total revenue without donor restrictions	20,367,667	3,916,586	75,170,742	(16,057,654)	**83,397,341**
Expense					
Direct program expenses:					
NMLS system operations	-	-	11,967,375	-	**11,967,375**
NMLS professional services	-	-	10,986,091	-	**10,986,091**
NMLS - call center	-	-	4,629,532	-	**4,629,532**
Professional services - legal, audit & other	288,397	242,591	8,306,974	(1,500,000)	**7,337,962**
Staff, board & member travel/meetings	424,790	2,055,114	1,395,095	-	**3,874,999**
Grants to affiliates	1,101,582	-	720,000	(1,821,582)	**-**
Total direct program expenses	1,814,769	2,297,705	38,005,067	(3,321,582)	**38,795,959**
Staffing & administrative expenses:					
Salaries and benefits	4,702,523	1,190,986	18,639,981	-	**24,533,490**
Technology & general office	628,318	308,967	3,789,955	-	**4,727,240**
Rent and occupancy	195,703	48,926	1,999,667	-	**2,244,296**
Total supporting services	5,526,544	1,548,879	24,429,603	-	**31,505,026**
Total expense	7,341,313	3,846,584	62,434,670	(3,321,582)	**70,300,985**
Change in unrestricted net assets	13,026,354	70,002	12,736,072	(12,736,072)	**13,096,356**
Activities with donor restrictions					
Net assets released from restriction	(376,585)	(25,483)	-	-	**(402,068)**
Change in net assets with donor restrictions	(376,585)	(25,483)	-	-	**(402,068)**
Change in net assets	12,649,769	44,519	12,736,072	(12,736,072)	**12,694,288**
Net assets, beginning of year	154,883,892	2,527,203	130,791,857	(130,791,857)	**157,411,095**
Net assets, end of year	$ 167,533,661	$ 2,571,722	$ 143,527,929	$ (143,527,929)	**$ 170,105,383**