Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Financial Report
December 31, 2019

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RSM

RSM US LLP

Independent Auditor's Report

Board of Directors
Conference of State Bank Supervisors, Inc.

Report on the Financial Statements

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, 2019, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Conference's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Conference as of December 31, 2019, 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.

Other Matters

The financial statements of the Conference, as of and for the year ended December 31, 2018 were audited by other auditors whose report, dated April 22, 2019, expressed an unmodified opinion on those financial statements.

RSM US LLP

Washington, D.C.
May 26, 2020

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	**$ 82,881,865**	$ 84,232,063
Accounts receivable, net	**828,916**	925,466
Investments	**86,839,309**	79,645,693
Prepaid expenses and other	**1,778,001**	1,768,471
Deferred compensation	**1,778,606**	1,256,764
Property and equipment, net	**32,569,982**	19,741,544
Total assets	**$ 206,676,679**	$ 187,570,001
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 8,562,641**	$ 7,751,765
Day with the Commissioner	**127,219**	140,687
Deferred revenue	**5,112,307**	4,243,504
Deferred rent	**1,915,293**	2,224,381
Funds held for others	**1,696,183**	1,847,517
Deferred compensation	**1,778,606**	1,256,764
Total liabilities	**19,192,249**	17,464,618
Commitments and contingencies (Note 11)		
Net assets:		
Without donor restrictions:		
Undesignated	**32,726,531**	19,741,544
Designated for reserves and development	**140,151,093**	135,087,706
	172,877,624	154,829,250
With donor restrictions	**14,606,806**	15,276,133
Total net assets	**187,484,430**	170,105,383
Total liabilities and net assets	**$ 206,676,679**	$ 187,570,001

See notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statement of Activities
Year Ended December 31, 2019

	Operations (Undesignated)	Designated for reserves and development	Total without donor restrictions	Total with donor restrictions	Total
Revenue:					
NMLS processing fees	$ 51,712,936	$ 911,199	$ 52,624,135	$ -	$ 52,624,135
NMLS professional services, net	11,045,944	191,537	11,237,481	-	11,237,481
Dues	6,192,341	-	6,192,341	-	6,192,341
Registration fees	1,955,983	-	1,955,983	-	1,955,983
Accreditation of banking and mortgage departments	243,174	-	243,174	-	243,174
Other income	8,319	-	8,319	-	8,319
Investment return, net	9,164,239	-	9,164,239	-	9,164,239
Net assets released from restriction	669,327	-	669,327	(669,327)	-
Total revenue	80,992,263	1,102,736	82,094,999	(669,327)	81,425,672
Expenses:					
Direct program expenses					
NMLS system operations	12,839,875	-	12,839,875	-	12,839,875
NMLS professional services	810,979	-	810,979	-	810,979
NMLS – call center	4,738,830	-	4,738,830	-	4,738,830
Professional services – legal, audit and other	5,210,680	-	5,210,680	-	5,210,680
Staff, board and member travel/meetings	4,410,533	-	4,410,533	-	4,410,533
Total direct program expenses	28,010,897	-	28,010,897	-	28,010,897
Staffing and administrative expenses:					
Salaries and benefits	28,109,816	-	28,109,816	-	28,109,816
Technology and general office	5,601,371	-	5,601,371	-	5,601,371
Rent and occupancy	2,324,541	-	2,324,541	-	2,324,541
Total staffing and administrative expenses	36,035,728	-	36,035,728	-	36,035,728
Total expenses	64,046,625	-	64,046,625	-	64,046,625
Change in net assets	16,945,638	1,102,736	18,048,374	(669,327)	17,379,047
Net assets:					
Beginning	19,741,544	135,087,706	154,829,250	15,276,133	170,105,383
Designation of net assets to reserves	(3,960,651)	3,960,651	-	-	-
Ending	$ 32,726,531	$ 140,151,093	$ 172,877,624	$ 14,606,806	$ 187,484,430

See notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statement of Activities
Year Ended December 31, 2018

	Operations (Undesignated)	Designated for reserves and development	Total without donor restrictions	Total with donor restrictions	Total
Revenue:					
NMLS processing fees	$ 40,788,125	$ 10,041,915	$ 50,830,040	$ -	$ 50,830,040
NMLS professional services, net	8,766,665	2,149,115	10,915,780	-	10,915,780
Dues	6,099,680	-	6,099,680	-	6,099,680
Registration fees	2,183,506	-	2,183,506	-	2,183,506
Accreditation of banking and mortgage departments	240,000	-	240,000	-	240,000
Other income	3,094,000	-	3,094,000	-	3,094,000
Investment return, net	(295,833)	-	(295,833)	-	(295,833)
Net assets released from restriction	402,068	-	402,068	(402,068)	-
Total revenue	61,278,211	12,191,030	73,469,241	(402,068)	73,067,173
Expenses:					
Direct program expenses					
NMLS system operations	11,967,375	-	11,967,375	-	11,967,375
NMLS professional services	1,057,991	-	1,057,991	-	1,057,991
NMLS – call center	4,629,532	-	4,629,532	-	4,629,532
Professional services – legal, audit & other	7,337,962	-	7,337,962	-	7,337,962
Staff, board and member travel/meetings	3,874,999	-	3,874,999	-	3,874,999
Total direct program expenses	28,867,859	-	28,867,859	-	28,867,859
Staffing and administrative expenses:					
Salaries and benefits	24,533,490	-	24,533,490	-	24,533,490
Technology and general office	4,727,240	-	4,727,240	-	4,727,240
Rent and occupancy	2,244,296	-	2,244,296	-	2,244,296
Total staffing and administrative expenses	31,505,026	-	31,505,026	-	31,505,026
Total expenses	60,372,885	-	60,372,885	-	60,372,885
Change in net assets	905,326	12,191,030	13,096,356	(402,068)	12,694,288
Net assets:					
Beginning	25,624,723	116,108,171	141,732,894	15,678,201	157,411,095
Designation of net assets to reserves	(6,788,505)	6,788,505	-	-	-
Ending	$ 19,741,544	$ 135,087,706	$ 154,829,250	$ 15,276,133	$ 170,105,383

See notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	**$ 17,379,047**	$ 12,694,288
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**3,746,163**	4,469,220
Loss on disposal of property and equipment	**3,970**	1,948,221
Net (gain) loss on investments	**(5,710,823)**	3,280,734
Changes in assets and liabilities:		
Decrease (increase):		
Accounts receivable	**96,550**	(279,342)
Prepaid expenses and other	**(9,530)**	(275,877)
Deferred compensation asset	**(521,842)**	(45,528)
(Decrease) increase:		
Accounts payable and accrued expenses	**810,876**	(155,618)
Day with the Commissioner	**(13,468)**	10,139
Deferred revenue	**868,803**	42,989
Deferred rent	**(309,088)**	(305,332)
Funds held for others	**(151,334)**	(219,959)
Deferred compensation liability	**521,842**	45,528
Net cash provided by operating activities	**16,711,166**	21,209,463
Cash flows from investing activities:		
Purchases of property and equipment	**(16,578,571)**	(534,257)
Proceeds from the sale and redemption of investments	**838,648**	38,649
Purchases of investments	**(2,321,441)**	(2,273,039)
Net cash used in investing activities	**(18,061,364)**	(2,768,647)
Net (decrease) increase in cash and cash equivalents	**(1,350,198)**	18,440,816
Cash and cash equivalents:		
Beginning	**84,232,063**	65,791,247
Ending	**$ 82,881,865**	$ 84,232,063

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: 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 single-member liability company owned by CSBS which was formed in 2006 to operate the Nationwide Multistate Licensing System and Registry (NMLS) on behalf of state financial services regulatory agencies. The NMLS was created to comply with the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act). NMLS is a web-based system that allows state-licensed non-depository companies, branches and individuals in the mortgage, consumer lending, money services businesses and debt collection industries to apply for, amend, update, or renew a license online for all participating state agencies using a single set of uniform applications. Mortgage loan originators employed by insured depository institutions are also registered through NMLS. NMLS brings greater uniformity and transparency to these non-depository financial services industries while maintaining and strengthening the ability of state regulators to monitor these industries and protect their citizens. All individual mortgage loan originators are represented in the system.

A summary of the Conference's significant accounting policies follows:

Income tax status: CSBS and the Foundation are both exempt from the payment of income taxes on their exempt activities under Section 501(c)(3) of the Internal Revenue Code (IRC) and are classified as other than a private foundation within the meaning of Section 509(a)(3) of the IRC. 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.

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

Basis of accounting: The financial statements of the Conference are presented on the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Not-For-Profit Entities Topic of the FASB ASC, the Conference is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets with donor restrictions: Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions. The Conference reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

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

Net assets without donor restrictions: Net assets without donor restrictions include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. The Conference classifies certain components of its net assets without donor restrictions as being designated for reserves and development.

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.

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. 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: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to investment return net of related fees. The Conference invests funds in a professionally managed portfolio that contains money market funds, 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 financial statements may not be reflective of the portfolio's value during subsequent periods

Accounts receivable: Accounts receivable consist primarily of amounts owed from customers for mortgage database processing fees, membership dues, conference and 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 and totaled approximately $6,300 and $3,800 at December 31, 2019 and 2018, respectively.

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 to 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 7 year useful life. Development costs of subsequent database releases will also be amortized over a 7 year useful life beginning when the release is implemented.

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

Impairment policy: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. During the years ended December 31, 2019 and 2018, management did not consider the value of any property or equipment or intangible assets to be impaired.

Adopted accounting pronouncements: During 2019, the Conference adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606).* This standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. ASU 2014-09 replaces most existing revenue recognition guidance in generally accepted accounting principles (GAAP). This standard also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Conference adopted the new standard effective for the year ended December 31, 2019 using the full retrospective method. Based on the Conference's review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard with the exception of certain NMLS professional services revenue streams which are now considered to be agency transactions. The adoption of this standard required $9,928,100 of NMLS professional expenses to be reclassified to net with NMLS professional fee revenue within the statement of activities for the year ended December 31, 2018 but had no effect on the previously reported change in net assets.

Revenue: The Conference's activities are primarily supported through NMLS license processing fees, NMLS professional fees, membership dues, and meeting registration fees. Prices charged to customers are specific to distinct performance obligations and do not consist of multiple transactions. Economic factors are driven by consumer confidence, employment, inflation and other world events that impact the timing and level of cash received and revenue recognized by the Conference. Periods of economic downturn resulting from any of the above factors may result in declines in future cash flows and recognized revenue of the Conference.

The Conference did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components. Finally, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

NMLS processing fees: NMLS processing fees revenue consists of NMLS license processing fees, credit card service fees and NMLS subscription revenue.

NMLS license processing fees are fixed amounts charged by SRR to facilitate the obtainment and renewal of licenses through the NMLS. When a license issuance or renewal request is initiated by the customer within the NMLS, the request is transmitted to the selected state agencies who are responsible for making the licensing determination to issue or renew a license. Credit card service fees are fixed amounts charged by SRR to process customer payments through the NMLS. License processing and credit card service fees are recognized at the point in time when SRR processes the transactions through the NMLS. For the years ended December 31, 2019 and 2018, respectively, license processing and credit card processing revenue recognized at a point in time totaled $50,101,046 and $48,414,482.

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

NMLS subscription revenue consists of two-factor subscriptions and B2B subscriptions. For two-factor subscriptions, the customer receives the use of a two-factor authentication tool to meet NMLS security requirements for a period of one year. For B2B subscriptions, the customer receives access to various resources and data online for the selected weekly, monthly or annual period. SRR's performance obligation for two-factor and B2B subscriptions are considered to occur evenly over the period of the subscriptions. Amounts received for subscriptions are deferred upon receipt and recognized ratably over the subscription period. For the years ended December 31, 2019 and 2018, respectively, subscription revenue recognized over time totaled $2,523,089 and $2,415,558.

NMLS professional fees: NMLS professional fees represent the fees charged by SRR to facilitate the pre-licensure requirements of the SAFE Act. These fees include state and national test fees, fingerprinting fees, credit report fees and course provider fees.

For state and national test fees, SRR has a performance obligation to act as an agent in processing the customer request through the NMLS to register for exams. After the request is processed through the NMLS, all aspects of exam registration and administration are the responsibility of a third-party provider. For fingerprinting fees, SRR has a performance obligation to act as an agent in processing the customer request through the NMLS for a criminal background check. After the request is processed through the NMLS, all aspects of the criminal background check are performed by the Federal Bureau of Investigation with results returned to the state agencies. For credit report fees, SRR has a performance obligation to act as an agent in processing the customer request through the NMLS for an independent credit report. After the request is processed through the NMLS, the credit report is created by a third party provider with results returned to the state agencies. State and national test fees, fingerprinting fees, and credit report fees are recognized at the point in time when the customer request is processed through the NMLS. For the years ended December 31, 2019 and 2018, respectively, state and national test fees, fingerprinting fees and credit report fees revenue recognized at a point in time totaled $7,000,511 and $6,733,444 net of expenses paid to the third-party providers.

Course provider fees consist of course application fees and credit banking fees. As part of the SAFE Act pre-licensure requirements, licensure applicants must have a certain amount of continuing education credits in approved courses. Course application fees represent SRR's performance obligation to make an approval decision as to whether a course meets the continuing professional education requirements of the SAFE Act. Course application fees are recognized at the point in time when SRR has rendered an approval decision to the course provider. Credit banking fees represent SRR's performance obligation to track education courses that count towards licensure requirements within the licensure applicant's record in the NMLS. Credit banking fees are paid by the course providers to SRR when courses have been completed and revenue is recognized at the point in time when SRR has recorded the course completion details in the NMLS. For the years ended December 31, 2019 and 2018, respectively, course provider fees recognized at a point in time totaled $4,236,970 and $4,182,336.

Membership dues: Membership dues are billed annually for the membership period, which runs from July 1 to June 30. Member benefits include access to public policy advocacy, access to information and research, an opportunity to serve on an advisory board, and access to discounted training courses from a third-party vendor. All member benefits are considered one performance obligation given that benefits are accessible to the member throughout the term of the membership. Membership dues are recorded as deferred revenue upon receipt and revenue is recognized ratably over the membership period as the delivery of the member benefits are provided.

Meeting registrations: Meeting registrations are recognized over the period of time that the related meeting takes place. Registration is typically collected in advance of the meeting date and recorded as deferred revenue until the meeting occurs.

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

Allocation of functional expenses: Expenses have been summarized on a functional basis in Note 12. 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.

Pending accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the current leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Conference for the year beginning January 1, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Conference is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

Reclassifications: Certain revenue and expenses have been reclassified to conform to 2019 presentation.

Subsequent events: In preparing these financial statements, the Conference has evaluated events and transactions for potential recognition or disclosure through May 26, 2020, which is the date the financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and on March 10, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact the Conference’s operations, suppliers or other vendors, and customer base. The operations for the Conference’s services could be negatively impacted by the regional and global outbreak of COVID-19, including cancellation of conferences and events for an unknown period of time. Any quarantines, labor shortages or other disruptions to the Organization’s operations, or those of its customers, may adversely impact the Conference’s revenues, ability to provide its services and operating results. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in which the Conference operates, resulting in an economic downturn that could affect demand for its services. The extent to which the coronavirus impacts the Conference’s results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

Note 2. Investments

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

	2019	2018
Fixed income mutual funds	$ 35,693,268	$ 33,704,720
Fixed income ETFs	33,069,593	30,882,407
Equity mutual funds	15,523,572	12,931,926
Equity ETFs	2,538,112	2,106,930
Money market funds	14,764	19,710
Total investments	$ 86,839,309	$ 79,645,693

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

	2019	2018
Dividends and interest	$ 3,465,363	$ 3,023,551
Net gain (loss) on investments	5,710,823	(3,280,734)
Investment expense	(11,947)	(38,650)
	$ 9,164,239	$ (295,833)

Note 3. Fair Value Measurements

The Fair Value Measurement Topic of the ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this topic as assumptions market participants would use in pricing an asset or liability.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. As required by the Fair Value Measurement Topic, the Conference does not adjust the quoted prices for these investments even in situations where the Conference holds a large position and a sale could reasonably impact the quoted price.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category are investments where fair value is not based on a NAV practical expedient. There were no Level 3 inputs for any assets or liabilities held by the Conference at December 31, 2019 and 2018.

The Conference's investments in money market funds, mutual funds and ETFs are classified as Level 1 items as they are traded on a public exchange.

Note 3. 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, 2019:

2019	Total	Level 1	Level 2	Level 3
Investments:				
Fixed income mutual funds	$ 35,693,268	$ 35,693,268	$ -	$ -
Fixed income ETFs	33,069,593	33,069,593	-	-
Equity mutual funds	15,523,572	15,523,572	-	-
Equity ETFs	2,538,112	2,538,112	-	-
Money market funds	14,764	14,764	-	-
	86,839,309	86,839,309	-	-
Deferred compensation:				
Equity mutual funds	1,689,863	1,689,863	-	-
Equity ETFs	52,889	52,889	-	-
Fixed income mutual funds	21,617	21,617	-	-
Fixed income ETFs	12,282	12,282	-	-
Money market funds	1,955	1,955	-	-
	1,778,606	1,778,606	-	-
Assets carried at fair value	$ 88,617,915	$ 88,617,915	$ -	$ -
Liabilities:				
Deferred compensation liability	$ 1,778,606	$ -	$ 1,778,606	$ -

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	$ 33,704,720	$ 33,704,720	$ -	$ -
Fixed income ETFs	30,882,407	30,882,407	-	-
Equity mutual funds	12,931,926	12,931,926	-	-
Equity ETFs	2,106,930	2,106,930	-	-
Money market funds	19,710	19,710	-	-
	79,645,693	79,645,693	-	-
Deferred compensation:				
Equity mutual funds	1,205,993	1,205,993	-	-
Equity ETFs	29,552	29,552	-	-
Fixed income mutual funds	12,724	12,724	-	-
Fixed income ETFs	7,353	7,353	-	-
Money market funds	1,142	1,142	-	-
	1,256,764	1,256,764	-	-
Assets carried at fair value	$ 80,902,457	$ 80,902,457	$ -	$ -
Liabilities:				
Deferred compensation liability	$ 1,256,764	$ -	$ 1,256,764	$ -

Note 4. 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 statements 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.

	2019	2018
Cash and cash equivalents	$ 82,881,865	$ 84,232,063
Investments	86,839,309	79,645,693
Accounts receivable	828,916	925,466
Deferred compensation investments	1,778,606	1,256,764
Total financial assets	172,328,696	166,059,986
Board-designated funds for future development	(61,273,550)	(55,242,550)
Donor restricted funds	(14,606,806)	(15,276,133)
Deferred compensation investments	(1,778,606)	(1,256,764)
Financial assets available to meet cash needs for general expenditures within one year	$ 94,669,734	$ 94,284,539

Note 5. 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 $114,181 and $106,495 to the deferred compensation plan for the years ended December 31, 2019 and 2018, respectively. Also, during the years ended December 31, 2019 and 2018, benefit distributions of $36,109 and $38,518, respectively, were made from the plan. Assets designated for this plan consist of various equity and fixed income mutual 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 years ended December 31, 2019 and 2018, respectively, the Conference contributed $50,823 and $43,740 to the plan. Assets designated for this plan consist of money market funds, mutual funds and exchange traded funds.

Note 6. 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.

Note 7. Property and Equipment

Property and equipment consist of the following at December 31:

	2019	2018
NMLS licensing database	$ 75,155,040	$ 59,024,644
Computer equipment	1,072,367	951,918
Website development	2,010,815	1,987,174
Furniture and fixtures	975,085	975,085
Equipment	1,171,075	1,046,366
Leasehold improvements	2,065,196	2,065,196
	82,449,578	66,050,383
Less accumulated depreciation and amortization	(49,879,596)	(46,308,839)
Total property and equipment	$ 32,569,982	$ 19,741,544

The Conference's various information technology applications are currently in the process of being upgraded. Accordingly, the Conference had capitalized work-in-progress development costs of $24,073,498 and $25,707,052 within the NMLS development category as of the years ended December 31, 2019 and 2018, respectively. Amortization of these amounts will begin when the assets are placed into service.

Note 8. 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 2019 and 2018 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 2019 and 2018, the Conference held $1,694,580 and $1,845,914, respectively, due to five states.

Note 9. 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, 2019 and 2018 were $2,353,729 and $1,835,195, respectively.

Note 10. Classifications of Net Assets

Net assets without donor restrictions, designated for reserves and development: The Conference has designated a portion of its 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 net assets without donor restrictions less investments in fixed assets and capitalized system and test development costs.

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

	2019	2018
CSBS	$ 9,194,676	$ 5,599,416
Foundation	2,925,976	2,560,584
SRR	128,030,441	126,927,706
Total reserves	$ 140,151,093	$ 135,087,706

Net assets with donor restrictions: Net assets with donor restrictions have been donor restricted by specified time or purpose limitations The Conference's donor restricted net assets for specified purpose consist of $14,595,668 and $15,264,995 as of December 31, 2019 and 2018, respectively, restricted for use for the purposes of the State Regulatory Fund (see Note 8) and $11,138 as of both December 31, 2019 and 2018 for the purpose of the Samuel Weinrott Memorial Scholarship Fund held by CSBS Education Foundation. The donors of the scholarship fund have stipulated that the corpus of the fund must remain in perpetuity. The earnings from the scholarship fund are restricted to provide scholarships to bank examiners at graduate schools for banking.

Note 11. 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% 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% 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, 2019 and 2018, respectively, no amounts have been drawn on the letter of credit.

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.

Note 11. Commitments and Contingencies (Continued)

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 statements 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, 2019 and 2018 was $357,258.

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.

In November 2018, the Conference signed an operating lease for additional office space at 1129 20th Street NW, Washington, D.C., which expires in May 2021. The lease contains an annual 4.0% rent escalation. The Conference was provided 3.5 months of rental abatement as an incentive to lease the space.

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 statements of financial position.

Rent expenses under these office space lease agreements amounted to approximately $2,100,000 and $2,000,000 for the years ended December 31, 2019 and 2018, respectively.

The following represents the future minimum lease payments under the office leases net of sublease payments as of December 31, 2019:

	Lease Payments	Sublease Payments	Net Lease Payments
Year Ending December 31,			
2020	$ 2,393,977	$ (382,716)	$ 2,011,261
2021	2,469,422	(399,938)	2,069,484
2022	1,865,455	(417,935)	1,447,520
2023	808,404	(107,176)	701,228
2024	503,890	-	503,890
Thereafter	866,462	-	866,462
Total future minimum lease payments	$ 8,907,610	$ (1,307,765)	$ 7,599,845

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 July 2020. Budgeted expenditures range between $50 million and $90 million and the project is expected to be completed over several years.

Note 12. 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	$ 810,979	$ -	$ -	$ 810,979	$ -	$ 810,979
NMLS system operations	12,839,875	-	-	12,839,875	-	12,839,875
NMLS – call center	4,738,830	-	-	4,738,830	-	4,738,830
Staff, board and member travel and meetings	1,028,890	454,158	2,322,224	3,805,272	605,261	4,410,533
Professional services – legal, audit and other	1,646,248	52,385	129,641	1,828,274	3,382,406	5,210,680
Salaries and benefits	15,450,586	4,430,322	1,210,090	21,090,998	7,018,818	28,109,816
Technology and general office	1,337,031	499,284	268,719	2,105,034	3,496,337	5,601,371
Rent and occupancy	1,743,406	255,699	46,491	2,045,596	278,945	2,324,541
Total 2019 expenses by nature and function	$ 39,595,845	$ 5,691,848	$ 3,977,165	$ 49,264,858	$ 14,781,767	$ 64,046,625

	NMLS	Regulatory and Legislative	Education	Total Program Services	Management and General	Total
Expenses:						
NMLS professional services	$ 1,057,991	$ -	$ -	$ 1,057,991	$ -	$ 1,057,991
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	$ 40,160,886	$ 5,033,579	$ 3,677,822	$ 48,872,287	$ 11,500,598	$ 60,372,885

RSM

RSM US LLP

Independent Auditor's Report on the Supplementary Information

Board of Directors
Conference of State Bank Supervisors, Inc.

We have audited the consolidated financial statements of the Conference of State Bank Supervisors, Inc. and Affiliates (the Conference) as of and for the year ended December 31, 2019, and our report thereon dated May 26, 2020, 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 financial statements as a whole. The consolidating financial information on the following two pages is presented for purposes of additional analysis of the financial statements rather than to present the financial position, changes in net assets and cash flows of the individual entities, and it is not a required part of the 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 financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

RSM US LLP

Washington, D.C.
May 26, 2020

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Financial Position
Year Ended December 31, 2019

	CSBS	Foundation	SRR	Eliminations	Total
Assets					
Cash and cash equivalents	$ 6,300,088	$ 1,305,242	$ 75,276,535	$ -	$ 82,881,865
Accounts receivable, net	247,451	36,198	545,267	-	828,916
Investments	21,672,637	1,997,069	63,169,603	-	86,839,309
Prepaid expenses and other	1,430,354	136,281	211,366	-	1,778,001
Deferred compensation	1,778,606	-	-	-	1,778,606
Property and equipment, net	2,507,085	-	30,062,897	-	32,569,982
Due from affiliates	3,720,953	640,094	526,005	(4,887,052)	-
Investment in subsidiary	158,231,727	-	-	(158,231,727)	-
Total assets	$ 195,888,901	$ 4,114,884	$ 169,791,673	$ (163,118,779)	$ 206,676,679
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	$ 1,803,408	$ 176,260	$ 6,582,973	$ -	$ 8,562,641
Day with the Commissioner	127,219	-	-	-	127,219
Deferred revenue	2,952,277	726,244	1,433,786		5,112,307
Deferred rent	1,915,293	-	-	-	1,915,293
Funds held for others	1,696,183	-	-	-	1,696,183
Deferred compensation	1,778,606	-	-	-	1,778,606
Due to affiliates	1,068,599	275,266	3,543,187	(4,887,052)	-
Total liabilities	11,341,585	1,177,770	11,559,946	(4,887,052)	19,192,249
Net assets:					
Without donor restrictions:					
Undesignated	32,726,531	-	30,201,286	(30,201,286)	32,726,531
Designated for reserves and development	137,225,117	2,925,976	128,030,441	(128,030,441)	140,151,093
	169,951,648	2,925,976	158,231,727	(158,231,727)	172,877,624
With donor restrictions	14,595,668	11,138	-	-	14,606,806
Total net assets	184,547,316	2,937,114	158,231,727	(158,231,727)	187,484,430
Total liabilities and net assets	$ 195,888,901	$ 4,114,884	$ 169,791,673	$ (163,118,779)	$ 206,676,679

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Activities
Year Ended December 31, 2019

	CSBS	Foundation	SRR	Eliminations	Total
Activities without donor restrictions:					
Revenue:					
NMLS processing fees	$ -	$ -	$ 52,624,135	$ -	$ 52,624,135
NMLS professional services, net	-	-	11,237,481	-	11,237,481
Dues	6,192,341	-	-	-	6,192,341
Registration fees	56,350	1,658,071	241,562	-	1,955,983
Accreditation of banking and mortgage departments	-	243,174	-	-	243,174
Other income	8,001	-	318	-	8,319
Investment return, net	2,448,006	203,494	6,512,739	-	9,164,239
Grants from affiliates	2,150,004	2,454,327	-	(4,604,331)	-
Income on Equity Investment in Subsidiary	14,703,798	-	-	(14,703,798)	-
Net assets released from restriction	669,327	-	-	-	669,327
Total revenue without donor restrictions	26,227,827	4,559,066	70,616,235	(19,308,129)	82,094,999
Expense:					
Direct program expenses:					
NMLS system operations	-	-	12,839,875	-	12,839,875
NMLS professional services	-	-	810,979	-	810,979
NMLS – call center	-	-	4,738,830	-	4,738,830
Professional services – legal, audit and other	419,371	179,073	4,612,236		5,210,680
Staff, board and member travel/meetings	726,442	2,327,685	1,356,406	-	4,410,533
Grants to affiliates	1,394,327	-	3,210,004	(4,604,331)	-
Staffing and administrative expenses:				-	-
Salaries and benefits	4,766,517	1,315,680	22,027,619	-	28,109,816
Technology and general office	918,332	319,166	4,363,873	-	5,601,371
Rent and occupancy	319,856	52,070	1,952,615	-	2,324,541
Total expense	8,544,845	4,193,674	55,912,437	(4,604,331)	64,046,625
Change in net assets without donor restrictions	17,682,982	365,392	14,703,798	(14,703,798)	18,048,374
Activities with donor restrictions:					
Contributions and interest income	-	-	-	-	-
Net assets released from restriction	(669,327)	-	-	-	(669,327)
Total expense	(669,327)	-	-	-	(669,327)
Change in net assets with donor restrictions	(669,327)	-	-	-	(669,327)
Change in net assets	17,013,655	365,392	14,703,798	(14,703,798)	17,379,047
Net assets:					
Beginning	167,533,661	2,571,722	143,527,929	(143,527,929)	170,105,383
Ending	$ 184,547,316	$ 2,937,114	$ 158,231,727	$ (158,231,727)	$ 187,484,430