

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Financial Report
December 31, 2020

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Independent Auditor's Report

RSM US LLP

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 statements of financial position as of December 31, 2020 and 2019, the related consolidated statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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, 2020 and 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.

RSM US LLP

Washington, D.C.
May 24, 2021

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Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 83,994,737	\$ 82,881,865
Accounts receivable, net	920,040	828,916
Investments	93,975,708	86,839,309
Prepaid expenses and other	2,805,646	1,778,001
Deferred compensation	2,289,723	1,778,606
Property and equipment, net	44,714,940	32,569,982
	<hr/>	<hr/>
Total assets	\$ 228,700,794	\$ 206,676,679
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 15,558,877	\$ 8,562,641
Day with the Commissioner	126,094	127,219
Deferred revenue	4,512,605	5,112,307
Deferred rent	1,595,555	1,915,293
Funds held for others	2,005,413	1,696,183
Deferred compensation	2,289,723	1,778,606
Total liabilities	26,088,267	19,192,249
Commitments and contingencies (Note 11)		
Net assets:		
Without donor restrictions:		
Undesignated	44,714,940	32,726,531
Designated for reserves and development	143,290,781	140,151,093
	<hr/>	<hr/>
	188,005,721	172,877,624
With donor restrictions	14,606,806	14,606,806
Total net assets	202,612,527	187,484,430
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Total liabilities and net assets	\$ 228,700,794	\$ 206,676,679

See notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

**Consolidated Statement of Activities
Year Ended December 31, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
NMLS processing fees	\$ 59,450,432	\$ -	\$ 59,450,432
NMLS professional services, net	15,579,168	-	15,579,168
Dues	6,234,272	-	6,234,272
Registration fees	1,364,371	-	1,364,371
Accreditation of banking and mortgage departments	255,175	-	255,175
Other income	13,700	-	13,700
Investment return, net	7,329,944	-	7,329,944
Net assets released from restriction	-	-	-
Total revenue	90,227,062	-	90,227,062
Expenses:			
Direct program expenses			
NMLS system operations	18,055,172	-	18,055,172
NMLS professional services	958,472	-	958,472
NMLS – call center	4,638,979	-	4,638,979
Professional services – legal, audit and other	7,017,614	-	7,017,614
Staff, board and member travel/meetings	1,844,308	-	1,844,308
Total direct program expenses	32,514,545	-	32,514,545
Staffing and administrative expenses:			
Salaries and benefits	32,241,883	-	32,241,883
Technology and general office	6,614,514	-	6,614,514
Rent and occupancy	2,388,010	-	2,388,010
Impairment loss – NMLS development costs	1,340,013	-	1,340,013
Total staffing and administrative expenses	42,584,420	-	42,584,420
Total expenses	75,098,965	-	75,098,965
Change in net assets	15,128,097	-	15,128,097
Net assets:			
Beginning	172,877,624	14,606,806	187,484,430
Ending	\$ 188,005,721	\$ 14,606,806	\$ 202,612,527

See notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

**Consolidated Statement of Activities
Year Ended December 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
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	1,955,983	-	1,955,983
Accreditation of banking and mortgage departments	243,174	-	243,174
Other income	8,319	-	8,319
Investment return, net	9,164,239	-	9,164,239
Net assets released from restriction	669,327	(669,327)	-
Total revenue	82,094,999	(669,327)	81,425,672
Expenses:			
Direct program expenses			
NMLS system operations	12,875,343	-	12,875,343
NMLS professional services	775,511	-	775,511
NMLS – call center	4,738,830	-	4,738,830
Professional services – legal, audit and other	5,210,680	-	5,210,680
Staff, board and member travel/meetings	4,410,533	-	4,410,533
Total direct program expenses	28,010,897	-	28,010,897
Staffing and administrative expenses:			
Salaries and benefits	28,109,816	-	28,109,816
Technology and general office	5,601,371	-	5,601,371
Rent and occupancy	2,324,541	-	2,324,541
Total staffing and administrative expenses	36,035,728	-	36,035,728
Total expenses	64,046,625	-	64,046,625
Change in net assets	18,048,374	(669,327)	17,379,047
Net assets:			
Beginning	154,829,250	15,276,133	170,105,383
Ending	\$ 172,877,624	\$ 14,606,806	\$ 187,484,430

See notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

**Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 15,128,097	\$ 17,379,047
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,439,796	3,746,163
Loss on disposal of property and equipment	-	3,970
Loss on impairment – NMLS development costs	1,340,013	-
Realized and unrealized gain on investments	(5,630,113)	(5,710,823)
Deferred rent	(319,738)	(309,088)
Changes in assets and liabilities:		
(Increase) decrease:		
Accounts receivable	(91,124)	96,550
Prepaid expenses and other	(1,027,645)	(9,530)
Increase (decrease):		
Accounts payable and accrued expenses	6,996,236	810,876
Due with the Commissioner	(1,125)	(13,468)
Deferred revenue	(599,702)	868,803
Funds held for others	309,230	(151,334)
Deferred compensation liability	511,117	521,842
Net cash provided by operating activities	21,055,042	17,233,008
Cash flows from investing activities:		
Purchases of property and equipment	(17,924,767)	(16,578,571)
Proceeds from the sale and redemption of investments	38,526,684	838,648
Purchases of investments	(40,544,087)	(2,843,283)
Net cash used in investing activities	(19,942,170)	(18,583,206)
Net increase (decrease) in cash and cash equivalents	1,112,872	(1,350,198)
Cash and cash equivalents:		
Beginning	82,881,865	84,232,063
Ending	\$ 83,994,737	\$ 82,881,865

See notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

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:

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 presentation: The consolidated 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 consolidated statements of activities as net assets released from restrictions.

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.

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.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

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

Use of estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents: For consolidated 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 value. To adjust the carrying value of these investments, the change in fair value is charged or credited to investment return net of related fees.

Financial risk: 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.

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 consolidated 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 \$13,703 and \$6,300 at December 31, 2020 and 2019, 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 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.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

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 year ended December 31, 2019, management did not consider the value of any property or equipment or intangible assets to be impaired. During the year ended December 31, 2020, management determined that intangible costs within capitalized NMLS development costs totaling \$1,340,013 were considered to be impaired, thus, a loss was recorded within the consolidated statements of activities.

Adopted accounting pronouncements: In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. The Conference adopted the provisions of ASU 2018-13 for the year ended December 31, 2020. The adoption of ASU 2018-13 had no impact on the consolidated financial statements.

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, 2020 and 2019, license processing and credit card processing revenue recognized at a point in time totaled \$56,529,784 and \$50,101,046, respectively.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

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, 2020 and 2019, subscription revenue recognized over time totaled \$2,920,648 and \$2,523,089, respectively.

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, 2020 and 2019, state and national test fees, fingerprinting fees and credit report fees revenue recognized at a point in time totaled \$9,663,868 and \$7,000,511, respectively, 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, 2020 and 2019, course provider fees recognized at a point in time totaled \$5,915,300 and \$4,236,970, respectively.

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.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

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 consolidated 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 consolidated statements of activities. The new standard is effective for the Conference for the year beginning January 1, 2022. 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 consolidated financial statements, with certain practical expedients available. The Conference is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

Reclassifications: Certain expenses have been reclassified to conform to 2020 presentation.

Subsequent events: Subsequent events have been evaluated through May 24, 2021, which is the date the consolidated financial statements were available to be issued.

Note 2. Investments

Investments other than deferred compensation holdings consist of the following at December 31, 2020 and 2019:

	2020	2019
Fixed income mutual funds	\$ 71,469,232	\$ 35,693,268
Fixed income ETFs	181,016	33,069,593
Equity mutual funds	19,451,235	15,523,572
Equity ETFs	2,858,631	2,538,112
Money market funds	15,594	14,764
Total investments	<u>\$ 93,975,708</u>	<u>\$ 86,839,309</u>

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

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 net asset value practical expedient. There were no Level 3 inputs for any assets or liabilities held by the Conference at December 31, 2020 and 2019.

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.

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, 2020:

	Total	Level 1	Level 2	Level 3
Investments:				
Fixed income mutual funds	\$ 71,469,232	\$ 71,469,232	\$ -	\$ -
Fixed income ETFs	181,016	181,016	-	-
Equity mutual funds	19,451,235	19,451,235	-	-
Equity ETFs	2,858,631	2,858,631	-	-
Money market funds	15,594	15,594	-	-
	<u>93,975,708</u>	<u>93,975,708</u>	-	-
Deferred compensation:				
Equity mutual funds	2,161,116	2,161,116	-	-
Equity ETFs	75,173	75,173	-	-
Fixed income mutual funds	35,346	35,346	-	-
Fixed income ETFs	15,548	15,548	-	-
Money market funds	2,540	2,540	-	-
	<u>2,289,723</u>	<u>2,289,723</u>	-	-
Assets carried at fair value	<u>\$ 96,265,431</u>	<u>\$ 96,265,431</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Deferred compensation liability	\$ 2,289,723	\$ -	\$ 2,289,723	\$ -

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

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 **Error! Unknown switch argument.:**

	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	-	-
	<u>86,839,309</u>	<u>86,839,309</u>	-	-
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	-	-
	<u>1,778,606</u>	<u>1,778,606</u>	-	-
Assets carried at fair value	<u>\$ 88,617,915</u>	<u>\$ 88,617,915</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Deferred compensation liability	\$ 1,778,606	\$ -	\$ 1,778,606	\$ -

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 ETFs.

The following table reflects the Conference's financial assets that are available to meet general expenditures within one year of the consolidated statements of financial position date at December 31, 2020 and 2019. 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.

	2020	2019
Cash and cash equivalents	\$ 83,994,737	\$ 82,881,865
Accounts receivable	920,040	828,916
Investments	93,975,708	86,839,309
Deferred compensation investments	2,289,723	1,778,606
Total financial assets	<u>181,180,208</u>	<u>172,328,696</u>
Board-designated funds for future development	(67,436,563)	(61,273,550)
Donor restricted funds	(14,606,806)	(14,606,806)
Deferred compensation investments	(2,289,723)	(1,778,606)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 96,847,116</u>	<u>\$ 94,669,734</u>

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

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 \$132,075 and \$114,181 to the deferred compensation plan for the years ended December 31, 2020 and 2019, respectively. Also, during the years ended December 31, 2020 and 2019, benefit distributions of \$116,359 and \$36,109, 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, 2020 and 2019, the Conference contributed \$53,039 and \$50,823, respectively, 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, 2020 and 2019:

	2020	2019
NMLS licensing database	\$ 91,183,873	\$ 75,155,040
Computer equipment	1,170,770	1,072,367
Website development	2,364,791	2,010,815
Furniture and fixtures	975,085	975,085
Equipment	1,171,075	1,171,075
Leasehold improvements	2,065,196	2,065,196
	<u>98,930,790</u>	<u>82,449,578</u>
Less accumulated depreciation and amortization	(54,215,850)	(49,879,596)
Total property and equipment	<u>\$ 44,714,940</u>	<u>\$ 32,569,982</u>

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 \$27,178,162 and \$24,073,498 within the NMLS development category as of the years ended December 31, 2020 and 2019, 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 2020 and 2019 was \$1,603.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 8. Funds Held for Others (Continued)

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 2020 and 2019, the Conference held \$1,608,744 and \$1,694,580, respectively.

During 2020, \$414,135 was distributed to the Conference for the Ameriquest Settlement Fund. The Fund is intended to be distributed to the 50 states and the District of Columbia which were a party to the settlement with the Conference acting as the escrow agent. CSBS will distribute the funds to the states as directed by the states subject to approval by a special committee independent of the Conference. As of December 31, 2020, the Conference held \$395,066 in the Ameriquest Settlement Fund.

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, 2020 and 2019, were \$2,681,624 and \$2,353,729, 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:

	2020	2019
CSBS	\$ 12,397,532	\$ 9,194,676
Foundation	3,190,970	2,925,976
SRR	127,702,279	128,030,441
Total reserves	<u>\$ 143,290,781</u>	<u>\$ 140,151,093</u>

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 \$14,606,806 as of both December 31, 2020 and 2019, restricted for use for the purposes of the State Regulatory Fund (see Note 8) and \$11,138 as of both December 31, 2020 and 2019, 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.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

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, 2020 and 2019, 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.

In June 2017, the Conference entered into an agreement to sublease its space at 1919 M Street effective August 2017 through March 2023. The subtenant agreement was terminated during 2020. Through the termination date, monthly sublease payments of approximately \$30,000 included base rent that escalated 4.5% each year and rental income was recognized on a straight-line basis until the end of the lease term in September 2020. In October 2020, a new subtenant began leasing space at 1919 M Street on a month-to-month basis. Sublease income for the years ended December 31, 2020 and 2019, was \$345,744 and \$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 \$2,200,000 and \$2,100,000 for the years ended December 31, 2020 and 2019, respectively.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 11. Commitments and Contingencies (Continued)

The following represents the future minimum lease payments under the office leases net of sublease payments as of December 31, 2020:

	Lease Payments
Years ending December 31,	
2021	\$ 2,340,449
2022	1,865,455
2023	808,404
2024	503,890
2025	516,474
Thereafter	349,988
Total future minimum lease payments	<u>\$ 6,384,660</u>

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 Modernization: In July 2020, new vendors were selected to redesign NMLS to incorporate the latest technology and streamline the license approval process. The project, which started in October 2020, is expected to cost \$85 million and be completed over the next four years.

COVID-19: On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a “Public Health Emergency of International Concern” and, on March 11, 2020, declared it to be a pandemic. The coronavirus and actions taken to mitigate the spread of it have had, and may continue to have, an adverse impact on the economies and financial markets of many countries, including the United States of America.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Conference. The extent of the impact of COVID-19 on the Conference’s operations and financial performance are uncertain and cannot be predicted. Management continues to monitor the impact of COVID-19 and will adjust operations accordingly.



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 Conference of State Bank Supervisors, Inc. and Affiliates (the Conference) as of and for the years ended December 31, 2020 and 2019, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements (see Page 1). Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, changes in net assets and cash flows of the individual entities and 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Washington, D.C.
May 24, 2021

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Financial Position December 31, 2020

	CSBS	Foundation	SRR	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 5,143,681	\$ 1,023,506	\$ 77,827,550	\$ -	\$ 83,994,737
Accounts receivable, net	363,340	78,647	478,053	-	920,040
Investments	23,877,271	2,186,407	67,912,030	-	93,975,708
Prepaid expenses and other	1,860,424	252,325	692,897	-	2,805,646
Deferred compensation	2,289,723	-	-	-	2,289,723
Property and equipment, net	2,192,662	-	42,522,278	-	44,714,940
Due from affiliates	5,326,528	269,617	970,452	(6,566,597)	-
Investment in subsidiary	170,224,557	-	-	(170,224,557)	-
Total assets	\$ 211,278,186	\$ 3,810,502	\$ 190,403,260	\$ (176,791,154)	\$ 228,700,794
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	\$ 2,127,140	\$ 47,830	\$ 13,383,907	\$ -	\$ 15,558,877
Day with the Commissioner	126,094	-	-	-	126,094
Deferred revenue	2,577,956	322,311	1,612,338	-	4,512,605
Deferred rent	1,595,555	-	-	-	1,595,555
Funds held for others	2,005,413	-	-	-	2,005,413
Deferred compensation	2,289,723	-	-	-	2,289,723
Due to affiliates	1,145,886	238,253	5,182,458	(6,566,597)	-
Total liabilities	11,867,767	608,394	20,178,703	(6,566,597)	26,088,267
Net assets:					
Without donor restrictions:					
Undesignated	44,714,940	-	42,522,278	(42,522,278)	44,714,940
Designated for reserves and development	140,099,811	3,190,970	127,702,279	(127,702,279)	143,290,781
	184,814,751	3,190,970	170,224,557	(170,224,557)	188,005,721
With donor restrictions	14,595,668	11,138	-	-	14,606,806
Total net assets	199,410,419	3,202,108	170,224,557	(170,224,557)	202,612,527
Total liabilities and net assets	\$ 211,278,186	\$ 3,810,502	\$ 190,403,260	\$ (176,791,154)	\$ 228,700,794

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Activities Year Ended December 31, 2020

	CSBS	Foundation	SRR	Eliminations	Total
Activities without donor restrictions:					
Revenue:					
NMLS processing fees	\$ -	\$ -	\$ 59,450,432	\$ -	\$ 59,450,432
NMLS professional services, net	-	-	15,579,168	-	15,579,168
Dues	6,234,272	-	-	-	6,234,272
Registration fees	482	1,161,889	202,000	-	1,364,371
Accreditation of banking and mortgage department	-	255,175	-	-	255,175
Other income	8,000	5,700	-	-	13,700
Investment return, net	2,207,868	189,341	4,932,735	-	7,329,944
Grants from affiliates	2,150,000	1,792,495	-	(3,942,495)	-
Income on Equity Investment in Subsidiary	11,992,830	-	-	(11,992,830)	-
Net assets released from restriction	-	-	-	-	-
Total revenue without donor restrictions	22,593,452	3,404,600	80,164,335	(15,935,325)	90,227,062
Expense:					
Direct program expenses:					
NMLS system operations	-	-	18,055,172	-	18,055,172
NMLS professional services	-	-	958,472	-	958,472
NMLS – call center	-	-	4,638,979	-	4,638,979
Professional services – legal, audit and other	333,314	329,503	6,354,797	-	7,017,614
Staff, board and member travel/meetings	116,634	1,124,365	603,309	-	1,844,308
Grants to affiliates	725,000	-	3,217,495	(3,942,495)	-
Staffing and administrative expenses:					
Salaries and benefits	5,446,838	1,412,772	25,382,273	-	32,241,883
Technology and general office	779,973	219,475	5,615,066	-	6,614,514
Rent and occupancy	328,590	53,491	2,005,929	-	2,388,010
Impairment loss – NMLS development costs	-	-	1,340,013	-	1,340,013
Total expense	7,730,349	3,139,606	68,171,505	(3,942,495)	75,098,965
Change in net assets without donor restrictions	14,863,103	264,994	11,992,830	(11,992,830)	15,128,097
Change in net assets with donor restrictions	-	-	-	-	-
Change in net assets	14,863,103	264,994	11,992,830	(11,992,830)	15,128,097
Net assets:					
Beginning	184,547,316	2,937,114	158,231,727	(158,231,727)	187,484,430
Ending	\$ 199,410,419	\$ 3,202,108	\$ 170,224,557	\$ (170,224,557)	\$ 202,612,527