Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Financial Report
December 31, 2022

Contents

Independent Auditor's Report

Board of Directors
Conference of State Bank Supervisors, Inc.

Opinion
We have audited the consolidated financial statements of Conference of State Bank Supervisors, Inc. and Affiliates (CSBS), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CSBS as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CSBS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter
As discussed in Note 1 to the financial statements, CSBS adopted Accounting Standards Update 2016-02, *Leases (Topic 842)*, effective January 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CSBS's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CSBS’ internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CSBS’ ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

RSM US LLP

Washington, D.C.
May 18, 2023

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	**$ 85,169,111**	$ 81,888,066
Accounts receivable, net	**1,810,695**	563,122
Investments	**87,347,903**	97,471,386
Prepaid expenses and other	**3,735,035**	3,703,770
Deferred compensation investments	**2,172,750**	2,612,237
Operating lease right-of-use assets, net	**14,258,719**	-
Property and equipment, net	**23,769,666**	69,378,712
	$ 218,263,879	$ 255,617,293
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 8,724,316**	$ 12,867,483
Deferred revenue	**5,340,065**	5,023,351
Funds held for others	**2,075,188**	2,094,975
Deferred compensation obligation	**2,172,750**	2,662,237
Operating lease liabilities, net	**20,630,095**	-
Deferred rent	**-**	1,108,382
Total liabilities	**38,942,414**	23,756,428
Commitments and contingencies (Note 10)		
Net assets:		
Without donor restrictions:		
Undesignated	**23,769,666**	69,378,707
Designated for reserves and development	**140,977,010**	147,875,352
	164,746,676	217,254,059
With donor restrictions	**14,574,789**	14,606,806
	179,321,465	231,860,865
	$ 218,263,879	$ 255,617,293

See notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statement of Activities
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
NMLS processing fees	$ 68,106,431	$ -	$ 68,106,431
NMLS professional services, net	15,870,504	-	15,870,504
Dues	6,631,611	-	6,631,611
Registration fees	1,656,781	-	1,656,781
Accreditation of banking and mortgage departments	275,174	-	275,174
Other income	20,367	-	20,367
Investment loss, net	(9,847,304)	-	(9,847,304)
Net assets released from restriction	32,017	(32,017)	-
Total revenue	82,745,581	(32,017)	82,713,564
Expenses:			
Direct program expenses:			
NMLS and SES system operations	20,673,034	-	20,673,034
NMLS—call center	6,527,395	-	6,527,395
NMLS professional services	729,778	-	729,778
Professional services—legal, audit and other	6,182,599	-	6,182,599
Staff, board and member travel and meetings	2,099,042	-	2,099,042
Total direct program expenses	36,211,848	-	36,211,848
Staffing and administrative expenses:			
Salaries and benefits	35,955,492	-	35,955,492
Technology and general office	6,917,798	-	6,917,798
Rent and occupancy	3,382,021	-	3,382,021
Total staffing and administrative expenses	46,255,311	-	46,255,311
Total expenses	82,467,159	-	82,467,159
Change in net assets before other item	278,422	(32,017)	246,405
Impairment loss—NMLS development costs	(52,785,805)	-	(52,785,805)
Change in net assets	(52,507,383)	(32,017)	(52,539,400)
Net assets:			
Beginning	217,254,059	14,606,806	231,860,865
Ending	$ 164,746,676	$ 14,574,789	$ 179,321,465

See notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statement of Activities
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
NMLS processing fees	$ 73,214,204	-	$ 73,214,204
NMLS professional services, net	19,177,057	-	19,177,057
Dues	6,473,558	-	6,473,558
Registration fees	1,059,458	-	1,059,458
Accreditation of banking and mortgage departments	265,174	-	265,174
Other income	21,950	-	21,950
Investment return, net	3,506,949	-	3,506,949
Net assets released from restriction	-	-	-
Total revenue	103,718,350	-	103,718,350
Expenses:			
Direct program expenses:			
NMLS system operations	17,861,703	-	17,861,703
NMLS—call center	5,998,619	-	5,998,619
NMLS professional services	817,288	-	817,288
Professional services—legal, audit and other	5,692,407	-	5,692,407
Staff, board and member travel and meetings	766,313	-	766,313
Total direct program expenses	31,136,330	-	31,136,330
Staffing and administrative expenses:			
Salaries and benefits	32,217,108	-	32,217,108
Technology and general office	7,286,894	-	7,286,894
Rent and occupancy	2,405,594	-	2,405,594
Total staffing and administrative expenses	41,909,596	-	41,909,596
Total expenses	73,045,926	-	73,045,926
Change in net assets before other item	30,672,424	-	30,672,424
Impairment loss—SES and NMLS development costs	(1,424,086)	-	(1,424,086)
Change in net assets	29,248,338	-	29,248,338
Net assets:			
Beginning	188,005,721	14,606,806	202,612,527
Ending	$ 217,254,059	$ 14,606,806	$ 231,860,865

See notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	**$ (52,539,400)**	$ 29,248,338
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**5,250,859**	4,643,913
Loss on disposal of property and equipment	**63,674**	-
Loss on impairment—NMLS development costs	**52,785,805**	1,424,086
Realized and unrealized loss (gain) on investments	**12,722,067**	(1,730,392)
Amortization of operating lease right-of-use assets	**3,701,645**	-
Deferred rent	**-**	(487,173)
Changes in assets and liabilities:		
(Increase) decrease:		
Accounts receivable	**(1,247,573)**	356,918
Prepaid expenses and other	**(31,265)**	(898,124)
Increase (decrease):		
Accounts payable and accrued expenses	**(4,143,167)**	(2,691,394)
Deferred revenue	**316,714**	510,746
Funds held for others	**(19,787)**	(36,532)
Deferred compensation	**(489,487)**	372,514
Principal payments on right of use lease liabilities	**(3,227,922)**	-
Net cash provided by operating activities	**13,142,163**	30,712,900
Cash flows from investing activities:		
Purchases of property and equipment	**(7,702,021)**	(30,731,771)
Proceeds from the sale and redemption of investments	**104,639**	3,367,718
Purchases of investments	**(2,263,736)**	(5,455,518)
Net cash used in investing activities	**(9,861,118)**	(32,819,571)
Net increase (decrease) in cash and cash equivalents	**3,281,045**	(2,106,671)
Cash and cash equivalents:		
Beginning	**81,888,066**	83,994,737
Ending	**$ 85,169,111**	$ 81,888,066
Supplemental schedule of noncash investing activities:		
Leasehold improvements obtained through tenant allowance	**$ 4,789,271**	$ -
Supplemental disclosure of cash flow information:		
Cash paid for amounts included in measurement of lease liabilities	**$ 2,950,992**	$ -
Right-of-use assets, recorded at ASC 842 adoption on January 1, 2022	**$ 3,461,954**	
Right-of-use assets, recorded at March 1, 2022	**$ 14,498,410**	$ -

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. 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 nondepository 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 nondepository 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 significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of Conference of State Bank Supervisors, Inc., the Foundation and SRR (collectively referred to as CSBS). All significant intercompany 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, CSBS 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. CSBS 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. CSBS classifies certain components of its net assets without donor restrictions as being designated for reserves and development.

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. CSBS maintains accounts with a commercial bank.

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

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: CSBS maintains accounts with a commercial bank. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. CSBS 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.

CSBS 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, CSBS' 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 CSBS (i.e., gross amount less allowance). CSBS' 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, CSBS' relationship with the customer and the age of the receivable balance. CSBS 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 $24,080 and $11,157 at December 31, 2022 and 2021, respectively.

Contract balances: The timing of revenue recognition may not align with the right to invoice the customer. CSBS records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. If revenue has not yet been recognized, a contract liability (deferred revenue) is recorded. If revenue is recognized in advance of the right to invoice, a contract asset (unbilled receivable) is recorded. Opening contract balances as of January 1, 2021 included accounts receivable of $920,040 and deferred revenue of $4,512,605.

Property and equipment: Property and equipment is stated at cost. It is the policy of CSBS to capitalize all purchases of property and equipment greater or equal to $5,000 and depreciate them over estimated useful lives of three to ten years using the straight-line method, with no salvage value. Leasehold improvements to CSBS' 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.

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. The 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 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.

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

During the year ended December 31, 2021, management determined that intangible costs within capitalized State Examination System (SES) totaling $1,381,039 and NMLS development costs totaling $43,047 were considered to be impaired and thus a loss was recorded within the consolidated statement of activities. During the year ended December 31, 2022, the progress and status of the NMLS Modernization project was re-evaluated. Over the course of the year, management determined that the direction of the project would change and require a new approach to development. With that change, the total carrying amount of the NMLS 2.0 and NMLS Modernization assets was reviewed and deemed to not be recoverable therefore, $52,785,805 was written off in 2022 which is recorded as a loss within the consolidated statement of activities.

Revenue: CSBS' 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 CSBS. Periods of economic downturn resulting from any of the above factors may result in declines in future cash flows and recognized revenue of CSBS.

CSBS 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, 2022 and 2021, license processing and credit card processing revenue recognized at a point in time totaled $64,168,864 and $69,685,972, respectively.

NMLS subscription revenue consists of two-factor subscriptions and business-to-business (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, 2022 and 2021, subscription revenue recognized over time totaled $3,937,567 and $3,528,232, respectively.

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

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

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, 2022 and 2021, state and national test fees, fingerprinting fees and credit report fees revenue recognized at a point in time totaled $10,087,910 and $11,933,538, 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 prelicensure 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, 2022 and 2021, course provider fees recognized at a point in time totaled $5,734,347 and $7,195,903, respectively.

Membership dues: Membership dues are billed annually for the membership period. 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.

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.

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

Recently adopted accounting pronouncements: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations related to their leasing arrangements. This comprehensive new standard amends and supersedes existing lease accounting guidance and is intended to increase transparency and comparability among organizations by recognizing right-of-use (ROU) lease assets and lease liabilities on the statement of financial position and requiring disclosure of key information about leasing arrangements. Lease expense continues to be recognized in a manner similar to legacy U.S. GAAP. CSBS adopted the new lease standard on January 1, 2022 using the optional transition method to the modified retrospective approach. Under this transition provision, results for reporting periods beginning on January 1, 2022 are presented under Topic 842, while prior period amounts continue to be reported and disclosed in accordance with CSBS's historical accounting treatment under ASC Topic 840, Leases.

To reduce the burden of adoption and ongoing compliance with Topic 842, a number of practical expedients and policy elections are available under the new guidance. CSBS elected the "package of practical expedients" permitted under the transition guidance, which among other things, did not require reassessment of whether contracts entered into prior to adoption are or contain leases, and allowed carryforward of the historical lease classification for existing leases. CSBS has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term at adoption on January 1, 2022.

CSBS made an accounting policy election under Topic 842 not to recognize right-of-use (ROU) assets and lease liabilities for leases with a term of twelve months or less. For all other leases, CSBS recognizes ROU assets and lease liabilities based on the present value of lease payments over the lease term at the commencement date of the lease (or January 1, 2022 for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives.

A lessee that is not a public business entity (PBE) is permitted to use a risk-free discount rate for its leases, determined using a period comparable with that of the lease term, as an accounting policy election for all leases. In order to ease the accounting burden of determining incremental borrowing rates under ASC 842, CSBS has made this accounting policy election for all leases. The risk-free discount rates were obtained using U.S. Treasury securities as posted on the Federal Reserve website. CSBS uses the implicit rate when readily determinable.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities related to CSBS' pre-existing operating leases of approximately $3,461,954 and $4,420,746 respectively, on January 1, 2022. Additionally, ROU assets and lease liabilities related to a new office lease of approximately $14,498,410 and $19,849,581, respectively, was recognized on March 31, 2022. The adoption of the new lease standard did not materially impact CSBS' consolidated change in net assets or consolidated cash flows and did not result in a cumulative-effect adjustment to the opening balance of consolidated net assets.

Use of estimates: The preparation of consolidated financial statements in accordance with generally accepted accounting principles (U.S. GAAP) 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.

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

Income tax status: The Conference of State Bank Supervisors, Inc. 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.

Subsequent events: CSBS has evaluated subsequent events through May 18, 2023, the date on which 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, 2022 and 2021:

	2022	2021
Fixed-income mutual funds	$ 69,465,706	$ 73,656,387
Equity mutual funds	15,184,171	20,512,812
Equity ETFs	2,675,106	3,300,236
Money market funds	22,762	1,563
Common stocks	158	388
Total investments	$ 87,347,903	$ 97,471,386

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, CSBS does not adjust the quoted prices for these investments even in situations where CSBS 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 CSBS at December 31, 2022 and 2021.

Note 3. Fair Value Measurements (Continued)

CSBS' investments in money market funds, mutual funds, common stocks 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, 2022:

	Total	Level 1	Level 2	Level 3
Investments:				
Fixed-income mutual funds	$ 69,465,706	$ 69,465,706	$ -	$ -
Equity mutual funds	15,184,171	15,184,171	-	-
Equity ETFs	2,675,106	2,675,106	-	-
Money market funds	22,762	22,762	-	-
Common stocks	158	158	-	-
	87,347,903	87,347,903	-	-
Deferred compensation investments:				
Equity mutual funds	1,673,752	1,673,752	-	-
Fixed-income mutual funds	498,998	498,998	-	-
	2,172,750	2,172,750	-	-
Investments carried at fair value	$ 89,520,653	$ 89,520,653	$ -	$ -
Liabilities:				
Deferred compensation obligation	$ 2,172,750	$ -	$ 2,172,750	$ -

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, 2021:

	Total	Level 1	Level 2	Level 3
Investments:				
Fixed-income mutual funds	$ 73,656,387	$ 73,656,387	$ -	$ -
Equity mutual funds	20,512,812	20,512,812	-	-
Equity ETFs	3,300,236	3,300,236	-	-
Fixed-income ETFs	1,563	1,563	-	-
Money market funds	388	388	-	-
	97,471,386	97,471,386	-	-
Deferred compensation investments:				
Equity mutual funds	2,369,950	2,369,950	-	-
Fixed-income mutual funds	242,287	242,287	-	-
	2,612,237	2,612,237	-	-
Investments carried at fair value	$ 100,083,623	$ 100,083,623	$ -	$ -
Liabilities:				
Deferred compensation obligation	$ 2,662,237	$ -	$ 2,662,237	$ -

Note 4. Liquidity

CSBS 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 CSBS' financial assets that are available to meet general expenditures within one year of the consolidated statements of financial position date at December 31, 2022 and 2021. Amounts not available are primarily board-designated funds as determined under CSBS' 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-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution.

	2022	2021
Cash and cash equivalents	$ 85,169,111	$ 81,888,066
Accounts receivable	1,810,695	563,122
Investments	87,347,903	97,471,386
Deferred compensation investments	2,172,750	2,612,237
Total financial assets	176,500,459	182,534,811
Board-designated funds	(140,977,010)	(147,875,352)
Donor restricted funds	(14,574,789)	(14,606,806)
Deferred compensation investments	(2,172,750)	(2,662,237)
Financial assets available to meet cash needs for general expenditures within one year	$ 18,775,910	$ 17,390,416

Note 5. Deferred Compensation Plans

CSBS maintains a nonqualified deferred compensation plan established under Section 457(b) of the IRC for eligible senior staff of CSBS, to which the participants make voluntary contributions, and CSBS makes discretionary contributions. CSBS made contributions of $89,453 and $132,347 to the deferred compensation plan for the years ended December 31, 2022 and 2021, respectively. Also, during the years ended December 31, 2022 and 2021, benefit distributions of $0 and $116,359, respectively, were made from the plan. Assets designated for this plan consist of various equity and fixed-income mutual funds.

Note 6. Retirement Plan

401(k) Plan: CSBS 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. CSBS makes a nonelective contribution equal to 3% of each participant's eligible salary. In addition, CSBS matches each participant's elective deferrals up to 5% of eligible salary. CSBS may also make discretionary contributions to the plan. Vesting is determined based on the nature of each plan contribution. CSBS's total contributions for the years ended December 31, 2022 and 2021, were $3,114,385 and $2,853,380, respectively.

Note 7. Property and Equipment

Property and equipment consists of the following at December 31, 2022 and 2021 :

	2022		
	Cost	Accumulated Depreciation and Amortization	Net Value
NMLS 1.0 and licensing databases	$ 58,000,057	$ (51,043,985)	$ 6,956,072
State Examination System	16,817,962	(5,655,096)	11,162,866
Computer equipment	976,732	(846,600)	130,132
Website development	2,489,094	(2,048,952)	440,142
Furniture and fixtures	882,427	(881,561)	866
Equipment	707,087	(666,598)	40,489
Leasehold improvements	7,036,720	(1,997,621)	5,039,099
	$ 86,910,079	$ (63,140,413)	$ 23,769,666

	2021		
	Cost	Accumulated Depreciation and Amortization	Net Value
NMLS 1.0 and licensing databases	$ 56,926,512	$ (49,077,645)	$ 7,848,867
NMLS 2.0 and NMLS modernization	46,660,586	-	46,660,586
State Examination System	16,729,443	(3,261,251)	13,468,192
Computer equipment	1,255,156	(1,051,232)	203,924
Website development	2,289,696	(1,758,188)	531,508
Furniture and fixtures	975,085	(933,951)	41,134
Equipment	1,171,075	(965,357)	205,718
Leasehold improvements	2,065,196	(1,646,413)	418,783
	$ 128,072,749	$ (58,694,037)	$ 69,378,712

In preparation for the move to the new office location, CSBS had capitalized work-in-progress leasehold improvements cost of $4,971,524 as of December 31, 2022. Amortization of these amounts will begin when the assets are placed in service.

Note 8. Funds Held for Others

From time to time, in the normal course of transactions with states, CSBS holds amounts on account for individual states. At the direction of individual states, CSBS holds these funds for future use such as training or educational programs sponsored by CSBS, including cosponsored “Day with the Commissioner” projects in various individual states. The balance of these accounts at December 31, 2022 and 2021, was $112,131 and $131,218, respectively.

Note 8. Funds Held for Others (Continued)

As a result of the National Mortgage Settlement in 2012, $65,000,000 was distributed to CSBS, of which, $16,000,000 was granted directly to CSBS 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 CSBS acting as the escrow agent. Since 2012, CSBS has distributed the funds to the states as directed by the states. As of December 31, 2022 and 2021, CSBS held $1,567,991 and $1,568,691, respectively.

During 2020, $414,135 was distributed to CSBS 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 CSBS 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 CSBS. As of both December 31, 2022 and 2021, CSBS held $395,066 in the Ameriquest Settlement Fund.

Note 9. Classifications of Net Assets

Net assets without donor restrictions, designated for reserves and development: CSBS 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, CSBS 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, 2022 and 2021:

	2022	2021
CSBS	$ 5,708,971	$ 15,024,058
Foundation	2,892,624	3,190,970
SRR	132,375,415	129,660,324
Total reserves	$ 140,977,010	$ 147,875,352

Net assets with donor restrictions: Net assets with donor restrictions have been donor restricted by specified time or purpose limitations. CSBS's donor restricted net assets for specified purpose consist of $14,563,651 and $14,595,668 as of December 31, 2022 and 2021, respectively, restricted for use for the purposes of the State Regulatory Fund (see Note 7). For the year ended December 31, 2022, CSBS incurred expenses relating to Money Service Business accreditations which satisfied the Board approved use of the State Regulatory fund and therefore $32,017 was released.

As of December 31, 2022 and 2021, the Foundation held net assets with donor restrictions of $11,138 for the Samuel Weinrott Memorial Scholarship Fund. 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 10. Commitments and Contingencies

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 CSBS.

Note 11. Leases

Leases: In May 2011, CSBS signed an operating lease for office space at 1129 20th Street N.W., Washington, D.C., which expired in April 2023. The lease contains an annual 2.5% rent escalation and requires CSBS to pay its proportionate share of operating expenses and real estate taxes. CSBS was provided a tenant allowance of $1,488,297 and 9½ months of rental abatement as incentives to lease the space.

In April 2014, CSBS signed an operating lease for overflow office space for SRR at 1919 M Street N.W., 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 CSBS 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, CSBS is also required to maintain a standby letter of credit of approximately $131,000. As of December 31, 2022 and 2021, no amounts have been drawn on the letter of credit. In May 2022, CSBS elected the tenant cancellation option within the lease which moved the lease expiration date to May 31, 2023. During 2023, CSBS signed an amendment to terminate the lease effective March 31, 2023.

In June 2017, CSBS 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, 2022 and 2021, was $351,855 and $336,118, respectively.

In December 2021, CSBS signed an operating lease for office space at 1300 I Street N.W., Washington, D.C., which commenced in March 2022 and expires in December 2036. The lease contains an annual 2.5% escalation and requires CSBS to pay its proportionate share of operating expenses and real estate taxes. As incentives to lease the space, CSBS was provided a tenant allowance of $5,976,407 to be applied to construction costs and a limited amount of furniture, fixtures and equipment and 24 months of rent abatement.

CSBS determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. Under Topic 842, a contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. CSBS also considers whether its service arrangements include the right to control the use of an asset.

CSBS leases premises for the purpose of commercial office use from unrelated parties under operating lease agreements that have terms from transition of 1 to 14.83 years. Leases include one or two options to renew for five years, generally at the company's sole discretion, with renewal terms that can extend the lease term. These options to extend a lease are included in the lease terms when it is reasonably certain that CSBS will exercise that option. CSBS's leases generally do not contain any material restrictive covenants. Operating lease cost is recognized on a straight-line basis over the lease term.

Note 11. Leases (Continued)

Future undiscounted cash flows for each of the next five years and thereafter and reconciliation to the lease liabilities recognized on the consolidated statement of financial position as of December 31, 2022 is as follows:

Years ending December 31:		
2023	$	414,845
2024		14,724
2025		1,729,950
2026		1,770,534
2027		1,802,044
Thereafter		18,385,154
Total lease payments		24,117,251
Less: present value discount		(3,487,156)
Total present value of lease liabilities	$	20,630,095

Future minimum lease commitments as determined under Topic 840, for all non-cancelable leases are those noted above.

Other quantitative information is as follows for the year ended December 31, 2022:

Operating lease cost	$	3,012,404
Operating lease liability at December 31, 2022	$	20,630,095
Operating lease right-of-use asset, net of amortization at December 31, 2022	$	14,258,719
Weighted-average remaining lease term (in years)		13.71
Weighted-average discount rate		1.95%

Note 12. Functional Presentation of Expenses

Expenses by nature and function for the years ended December 31, 2022 and 2021, are as follows:

	2022					
	NMLS	Regulatory and Legislative	Education	Total Program Services	Management and General	Total
NMLS and SES system operations	$ 20,673,034	$ -	$ -	$ 20,673,034	$ -	$ 20,673,034
NMLS—call center	6,527,395	-	-	6,527,395	-	6,527,395
NMLS professional services	729,778	-	-	729,778	-	729,778
Professional services—legal, audit and oth	2,199,494	69,500	231,279	2,500,273	3,682,326	6,182,599
Staff, board and member travel and meetin	423,611	357,084	772,580	1,553,275	545,767	2,099,042
Salaries and benefits	16,229,380	6,937,274	1,213,878	24,380,532	11,574,960	35,955,492
Technology and general office	1,398,795	585,120	311,967	2,295,882	4,621,916	6,917,798
Rent and occupancy	2,536,517	372,023	67,640	2,976,180	405,841	3,382,021
	$ 50,718,004	$ 8,321,001	$ 2,597,344	$ 61,636,349	$ 20,830,810	$ 82,467,159

	2021					
	NMLS	Regulatory and Legislative	Education	Total Program Services	Management and General	Total
NMLS system operations	$ 17,861,703	$ -	$ -	$ 17,861,703	$ -	$ 17,861,703
NMLS—call center	5,998,619	-	-	5,998,619	-	5,998,619
NMLS professional services	817,288	-	-	817,288	-	817,288
Professional services—legal, audit and oth	2,443,722	268,422	296,201	3,008,345	2,684,062	5,692,407
Staff, board and member travel and meetin	135,163	31,915	478,382	645,460	120,853	766,313
Salaries and benefits	17,757,858	5,122,125	1,104,735	23,984,718	8,232,390	32,217,108
Technology and general office	3,074,661	318,424	259,817	3,652,902	3,633,992	7,286,894
Rent and occupancy	1,804,196	264,616	48,112	2,116,924	288,670	2,405,594
	$ 49,893,210	$ 6,005,502	$ 2,187,247	$ 58,085,959	$ 14,959,967	$ 73,045,926

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 (CSBS) as of and for the years ended December 31, 2022 and 2021, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements (see Pages 1 and 2). 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the 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 18, 2023

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Financial Position
December 31, 2022

	CSBS	Foundation	SRR	Eliminations	Total
Assets					
Cash and cash equivalents	$ 3,284,525	$ 1,031,172	$ 80,853,414	$ -	$ 85,169,111
Accounts receivable, net	953,596	175,906	681,193	-	1,810,695
Investments	22,183,622	2,028,165	63,136,116	-	87,347,903
Prepaid expenses and other	2,615,749	200,402	918,884	-	3,735,035
Deferred compensation investments	2,172,750	-	-	-	2,172,750
Operating lease right-of-use assets, net	14,258,719	-	-	-	14,258,719
Property and equipment, net	5,650,728	-	18,118,938	-	23,769,666
Due from affiliates	11,758,928	1,095,089	5,748,929	(18,602,946)	-
Investment in subsidiary	150,494,353	-	-	(150,494,353)	-
	$ 213,372,970	$ 4,530,734	$ 169,457,474	$ (169,097,299)	$ 218,263,879
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accrued expenses	$ 2,208,437	$ 316,567	$ 6,199,312	$ -	$ 8,724,316
Deferred revenue	3,056,998	335,230	1,947,837	-	5,340,065
Funds held for others	2,075,188	-	-	-	2,075,188
Deferred compensation obligation	2,172,750	-	-	-	2,172,750
Operating lease liabilities, net	20,630,095	-	-	-	20,630,095
Due to affiliates	6,811,799	975,175	10,815,972	(18,602,946)	-
Total liabilities	36,955,267	1,626,972	18,963,121	(18,602,946)	38,942,414
Net assets:					
Without donor restrictions:					
Undesignated	23,769,666	-	18,118,938	(18,118,938)	23,769,666
Designated for reserves and development	138,084,386	2,892,624	132,375,415	(132,375,415)	140,977,010
	161,854,052	2,892,624	150,494,353	(150,494,353)	164,746,676
With donor restrictions	14,563,651	11,138	-	-	14,574,789
	176,417,703	2,903,762	150,494,353	(150,494,353)	179,321,465
	$ 213,372,970	$ 4,530,734	$ 169,457,474	$ (169,097,299)	$ 218,263,879

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Activities
Year Ended December 31, 2022

	CSBS	Foundation	SRR	Eliminations	Total
Revenue:					
NMLS processing fees	$ -	$ -	$ 68,106,431	$ -	$ 68,106,431
NMLS professional services, net	-	-	15,870,504	-	15,870,504
Dues	6,631,611	-	-	-	6,631,611
Registration fees	49,670	1,279,311	327,800	-	1,656,781
Accreditation of banking and mortgage departments	-	275,174	-	-	275,174
Other income	8,000	12,367	-	-	20,367
Investment loss, net	(2,982,733)	(259,281)	(6,605,290)	-	(9,847,304)
Grants from affiliates	1,872,194	1,299,542	-	(3,171,736)	-
Loss on equity investment in subsidiary	(47,143,615)	-	-	47,143,615	-
Total revenue without donor restrictions	(41,564,873)	2,607,113	77,699,445	43,971,879	82,713,564
Expenses:					
Direct program expenses:					
NMLS and SES system operations	-	-	20,673,034	-	20,673,034
NMLS—call center	-	-	6,527,395	-	6,527,395
NMLS professional services	-	-	729,778	-	729,778
Professional services—legal, audit and other	422,209	285,862	5,474,528	-	6,182,599
Staff, board and member travel and meetings	606,613	777,415	715,014	-	2,099,042
Grants to affiliates	426,099	-	2,745,637	(3,171,736)	-
Staffing and administrative expenses:					
Salaries and benefits	7,631,772	1,387,502	26,936,218	-	35,955,492
Technology and general office	1,124,122	378,924	5,414,752	-	6,917,798
Rent and occupancy	465,366	75,756	2,840,899	-	3,382,021
Total expenses	10,676,181	2,905,459	72,057,255	(3,171,736)	82,467,159
Change in net assets before other item	(52,241,054)	(298,346)	5,642,190	47,143,615	246,405
Impairment loss—NMLS development costs	-	-	(52,785,805)	-	(52,785,805)
Change in net assets	(52,241,054)	(298,346)	(47,143,615)	47,143,615	(52,539,400)
Net assets:					
Beginning	228,658,757	3,202,108	197,637,968	(197,637,968)	231,860,865
Ending	$ 176,417,703	$ 2,903,762	$ 150,494,353	$ (150,494,353)	$ 179,321,465