

**Audited Consolidated Financial Statements
and Other Financial Information**

**CONFERENCE OF STATE BANK
SUPERVISORS, INC. AND AFFILIATES**

December 31, 2013

Conference of State Bank Supervisors, Inc. and Affiliates

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Independent Auditor's Report on the Consolidated Financial Statements

To the Board of Directors
Conference of State Bank Supervisors, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of the Conference of State Bank Supervisors, Inc. and Affiliates (the Conference), which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements. The prior-year summarized comparative information has been derived from the Conference's 2012 consolidated financial statements and, in our report dated April 30, 2013 we expressed an unmodified opinion on those consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Conference's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Conference's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Conference of State Bank Supervisors, Inc. and Affiliates as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC
May 5, 2014

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

202/293-2200

FACSIMILE

202/293-2208

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Financial Position

December 31,	2013	2012
Assets		
Cash and cash equivalents	\$ 72,176,695	\$ 66,371,183
Accounts receivable, net of allowance for doubtful accounts of \$25,837 and \$18,684 for 2013 and 2012, respectively	1,940,236	2,401,324
Investments	13,836,391	3,027,773
Prepaid expenses and other	699,653	443,342
Deferred compensation	643,517	453,903
Property and equipment, net	22,862,115	22,978,843
Capitalized test development costs, net	463,721	1,270,935
Total assets	\$ 112,622,328	\$ 96,947,303
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 7,154,852	\$ 8,103,811
Day with the Commissioner	68,994	74,524
Deferred revenue	3,481,746	3,176,653
Deferred rent	1,868,637	1,949,352
Funds held for others	8,839,433	9,867,239
Deferred compensation	643,517	453,903
Total liabilities	22,057,179	23,625,482
Net assets		
Unrestricted		
Undesignated	32,411,248	29,254,576
Designated for reserves and development - SRR	41,691,825	27,523,940
Total unrestricted net assets	74,103,073	56,778,516
Temporarily restricted	16,450,938	16,532,167
Permanently restricted	11,138	11,138
Total net assets	90,565,149	73,321,821
Total liabilities and net assets	\$ 112,622,328	\$ 96,947,303

See accompanying notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates
Consolidated Statements of Activities
Year ended December 31, 2013
(With comparative totals for the year ended December 31, 2012)

<i>Year Ended December 31,</i>	2013					Total 2013	Total 2012
	Operations (Undesignated)	Designated for reserves	Total unrestricted activity	Temporarily restricted activity	Permanently restricted activity		
Revenue							
NMLS processing fees	\$ 28,975,310	\$ 9,658,437	\$ 38,633,747	\$ -	\$ -	\$ 38,633,747	\$ 33,880,855
NMLS professional services	18,721,344	6,240,448	24,961,792	-	-	24,961,792	24,790,614
Dues	5,516,489	-	5,516,489	-	-	5,516,489	5,024,940
Registration fees	1,834,507	-	1,834,507	-	-	1,834,507	1,416,703
Contributions	26,000	-	26,000	-	-	26,000	16,270,000
Accreditation of banking & mortgage departments	204,000	-	204,000	-	-	204,000	219,000
Other income	16,501	-	16,501	-	-	16,501	15,386
Investment income	818,102	-	818,102	-	-	818,102	357,716
Net assets released from restriction	81,229	-	81,229	(81,229)	-	-	-
Total revenue	56,193,482	15,898,885	72,092,367	(81,229)	-	72,011,138	81,975,214
Expenses							
Program expenses							
NMLS professional services	14,483,636	-	14,483,636	-	-	14,483,636	16,850,410
NMLS system operations	14,125,884	-	14,125,884	-	-	14,125,884	15,856,401
NMLS - call center	5,152,798	-	5,152,798	-	-	5,152,798	5,344,996
Staff, board & member travel/meetings	2,250,156	-	2,250,156	-	-	2,250,156	1,505,768
Professional services - legal, audit & other	2,127,299	-	2,127,299	-	-	2,127,299	1,440,316
Total program expenses	38,139,773	-	38,139,773	-	-	38,139,773	40,997,891
Staffing & administrative expenses							
Salaries and benefits	11,277,793	-	11,277,793	-	-	11,277,793	9,423,900
Technology & general office	2,549,090	-	2,549,090	-	-	2,549,090	2,066,969
Rent and occupancy	1,070,154	-	1,070,154	-	-	1,070,154	1,123,854
Total staffing & administrative expenses	14,897,037	-	14,897,037	-	-	14,897,037	12,614,723
Total expenses	53,036,810	-	53,036,810	-	-	53,036,810	53,612,614
Net change before other expense	3,156,672	15,898,885	19,055,557	(81,229)	-	18,974,328	28,362,600
Accrued loss on contingent liability	-	(1,731,000)	(1,731,000)	-	-	(1,731,000)	-
Final pension settlement expense	-	-	-	-	-	-	(377,190)
Change in net assets	3,156,672	14,167,885	17,324,557	(81,229)	-	17,243,328	27,985,410
Net assets, beginning of year	29,254,576	27,523,940	56,778,516	16,532,167	11,138	73,321,821	45,336,411
Net assets, end of year	\$ 32,411,248	\$ 41,691,825	\$ 74,103,073	\$ 16,450,938	\$ 11,138	\$ 90,565,149	\$ 73,321,821

See accompanying notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Cash Flows

Year Ended December 31,	2013	2012
Cash Flows From Operating Activities		
Change in net assets	\$ 17,243,328	\$ 27,985,410
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	5,936,130	5,247,622
(Gain) loss on disposal of property and equipment	351,348	(1,300)
Increase (decrease) in allowance for doubtful accounts	7,153	(2,552)
Gain on investments, net	(634,403)	(301,660)
Changes in assets and liabilities:		
Accounts receivable	453,935	(373,295)
Prepaid expenses and other	(256,311)	98,804
Deferred compensation asset	(189,614)	27,526
Accounts payable and accrued expenses	(948,959)	640,037
Day with the Commissioner	(5,530)	13,285
Deferred revenue	305,093	128,222
Deferred rent	(80,715)	(71,354)
Funds held for others	-	(1,879)
Deferred compensation liability	189,614	(27,526)
Accrued pension cost	-	(1,832,809)
Total adjustments	5,127,741	3,543,121
Net cash provided by operating activities	22,371,069	31,528,531
Cash Flows From Investing Activities		
Net purchases of property and equipment	(5,324,628)	(5,581,869)
Costs paid in developing tests	(38,908)	(136,081)
Proceeds from the sale and redemption of investments	162	602
Purchases of investments	(10,174,377)	(55,641)
Net cash used in investing activities	(15,537,751)	(5,772,989)
Cash Flows From Financing Activities		
Net receipts (disbursements) of National Mortgage Settlement Funds held on behalf of States	(1,027,806)	9,841,655
Net cash provided by (used in) financing activities	(1,027,806)	9,841,655
Net increase in cash and cash equivalents	5,805,512	35,597,197
Cash and cash equivalents, beginning of year	66,371,183	30,773,986
Cash and cash equivalents, end of year	\$ 72,176,695	\$ 66,371,183

See accompanying notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Conference of State Bank Supervisors, Inc. (CSBS) is a nonprofit organization founded in 1902 to assure the ability of each state banking authority to provide safe, sound, and well-regulated financial institutions to meet the unique financial needs of local economies and their citizens. Its members are public entities who charter, regulate, and supervise state-chartered banks of the United States. State bankers are also members.

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

The State Regulatory Registry LLC (SRR) is a non-profit entity formed in 2006 to operate the Nationwide Mortgage Licensing System and Registry (NMLS) on behalf of state financial services regulatory agencies.

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

Basis of accounting: The consolidated financial statements of the Conference are presented on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses are recognized when the underlying obligations are incurred. The Conference defines operations as all revenues and expenses that are an integral part of its programs and support services.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income tax status: By letter dated May 12, 2012, the Internal Revenue Service (IRS) notified CSBS that it is exempt from the payment of Federal income taxes on income other than unrelated business income under Section 501(c)(3) of the Internal Revenue Code (IRC). CSBS's 501(c)(3) status became effective retroactive to March 25, 2011 and CSBS is now classified as other than a private foundation. Prior to March 25, 2011, CSBS was exempt from the payment of income taxes on income other than unrelated business income under Section 501(c)(6) of the IRC.

The Foundation is exempt from the payment of Federal and state income taxes on income other than unrelated business income under Section 501(c)(3) of the IRC, and has been classified by the Internal Revenue Service as other than a private foundation.

SRR has been ruled by the Internal Revenue Service to be a single-member domestic limited liability company, and is therefore disregarded as a separate entity for income tax purposes.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Uncertain income tax positions: The Organization believes that it has appropriate support for any tax positions taken, and therefore, does not have any uncertain tax positions that are material to the financial statements. Management considers the years from 2010 through 2013 to be open for examination by taxing authorities.

Cash and cash equivalents: For financial statement purposes, the Conference considers all highly liquid investments with an original maturity of three months or less that are not held in investment accounts to be cash equivalents.

SRR is a temporary custodian of funds collected from mortgage licensees who use the NMLS. These funds are not recorded on SRR's balance sheet. The funds are held in a banking/sweep account for approximately eight days in order to assure that funds collected through ACH and credit card charges have time to clear the banking system; then SRR remits the collected funds to the appropriate states and transfers the portion belonging to SRR as a processing fee to its own operating account. Cash balances held in this banking account were \$6,380,771 and \$5,884,616 as of December 31, 2013 and 2012, respectively.

Accounts receivable: Accounts receivable consist primarily of amounts owed from customers for mortgage database processing fees, membership dues, conference & seminar registrations, online courses, and sales of publications. Accounts receivable are presented at the net amount due to the Conference (i.e., gross amount less allowance). The Conference's management periodically reviews the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer, the Conference's relationship with the customer, and the age of the receivable balance. The Conference has established an allowance for doubtful accounts to estimate the portion of receivables that will not be collected. This allowance is regularly reviewed by management.

Property and equipment: Property and equipment are stated at cost. It is the policy of the Conference to capitalize all purchases of property and equipment greater or equal to \$1,000 and depreciate them over estimated useful lives of 3 – 10 years using the straight-line method, with no salvage value.

Leasehold improvements to the Conference's office space are recorded at cost and depreciated using the straight-line basis over the remaining life of the original lease term. The development costs of the NMLS database are being amortized over a seven year useful life. Development costs of subsequent database releases will also be amortized over a seven year useful life when the release is implemented.

Capitalized test development costs: In order to address provisions of the Secure and Fair Enforcement of Mortgage Licensing Act of 2008, SRR has developed a national test component as well as unique state-specific test components which all state-licensed mortgage loan originators registering on the NMLS are required to take. As of December 31, 2013 and 2012, SRR had capitalized a total of \$1,410,501 and \$2,474,053, respectively, related to the development of these tests.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

SRR is amortizing these test development costs over an estimated useful life of five years. During the year ended December 31, 2013 and 2012, amortization expense of \$489,774 and \$454,319, respectively, is included in general and administrative expenses on the accompanying consolidated statements of activities.

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

Prior to the year ended December 31, 2013, the Organization presented the consolidated unrestricted net assets of the Foundation as a separate component of designated net assets. Effective with the 2013 financial statements, the Organization classifies only those net assets of SRR designated for reserves and development to be designated net assets. The remaining unrestricted net assets of CSBS, the Foundation, and SRR are presented as unrestricted, undesignated net assets.

Revenue recognition: Revenue and expenses are recognized in the period in which services or benefits are provided or received. Deferred revenue primarily includes member dues, meeting registration fees, accreditation fees, and license processing fees received before they are earned.

Allocation of functional expenses: Expenses have been summarized on a functional basis in Note L. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent events: Subsequent events have been evaluated through May 5, 2014, which is the date the consolidated financial statements were available to be issued.

B. CREDIT AND MARKET RISK

Cash: The Conference maintains demand deposits and overnight treasury fund sweep accounts with commercial banks. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The Conference has not experienced any such losses in the past, and does not believe it is exposed to any significant financial risk on these cash balances.

Investments: The Conference invests funds in mutual funds and exchange-traded funds (ETFs). Such investments are exposed to market and credit risks. Thus, the Conference's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in these consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

C. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Conference has implemented the accounting standard regarding fair value measurements. The standard defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

The following is a summary of the input levels used to determine fair values, measured on a recurring basis, of the following assets and liabilities at December 31, 2013:

2013	Total	Level 1	Level 2	Level 3
Investments - mutual funds & ETFs	\$ 13,390,903	\$ 13,390,903	\$ -	\$ -
Deferred compensation investments	643,517	643,517		
Assets carried at fair value	14,034,420	\$ 14,034,420	\$ -	\$ -
Money market funds & cash*	445,488			
Total	\$ 14,479,908			

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, 2012:

2012	Total	Level 1	Level 2	Level 3
Investments - mutual funds	\$ 2,594,576	\$ 2,594,576	\$ -	\$ -
Deferred compensation investments	453,903	453,903		
Assets carried at fair value	3,048,479	\$ 3,048,479	\$ -	\$ -
Money market funds & cash*	433,197			
Total	\$ 3,481,676			

*Money market funds and cash included in the investment portfolio are not subject to the provisions of fair value measurements as they are recorded at cost.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

C. INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED

Investments consist of the following at December 31,:

	2013	2012
Money market funds	\$ 445,488	\$ 433,197
Equity mutual funds	3,433,371	2,594,576
Fixed income mutual funds & ETFs	9,957,532	-
Total investments	<u>\$ 13,836,391</u>	<u>\$ 3,027,773</u>

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

	2013	2012
Dividends and interest	\$ 183,699	\$ 56,056
Net gain on investments	634,403	301,660
	<u>\$ 818,102</u>	<u>\$ 357,716</u>

D. DEFERRED COMPENSATION PLAN

The Conference maintains a nonqualified deferred compensation plan established under Section 457(b) of the Internal Revenue Code for eligible senior staff of the Conference, to which the participants make voluntary contributions. In 2012, the Conference began making discretionary contributions to the plan. The Conference made a contribution of \$61,581 and \$34,975 to the deferred compensation plan for the years ended December 31, 2013 and December 31, 2012, respectively. Also, during the years ended December 31, 2013 and 2012 benefit distributions of \$0 and \$143,367 were made from the plan, respectively. Assets designated for this plan consist of mutual funds.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

E. PROPERTY AND EQUIPMENT

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

	2013	2012
Furniture and fixtures	\$ 518,794	\$ 513,622
Equipment	33,223	20,937
Computer equipment	1,045,243	895,109
Leasehold improvements	1,226,904	1,226,904
NMLS licensing database	38,676,909	34,525,422
Website development	837,021	581,087
	<u>42,338,094</u>	<u>37,763,081</u>
Less accumulated depreciation and amortization	<u>(19,475,979)</u>	<u>(14,784,238)</u>
Total property and equipment	<u>\$ 22,862,115</u>	<u>\$ 22,978,843</u>

F. DAY WITH THE COMMISSIONER

The Conference has co-sponsored certain "Day with the Commissioner" projects in various individual states. The liability on the Conference's consolidated statements of financial position represents net unexpended revenue that is available to the individual states.

G. FUNDS HELD FOR OTHERS

From time to time, in the normal course of transactions with states, the Conference has amounts on account with 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 was \$12,758 and \$25,584 at December 31, 2013 and 2012, respectively.

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. During the years ended December 31, 2013 and 2012, a total of \$1,014,980 and \$39,158,345 was distributed to 3 states and 41 states, respectively. The Board-adopted policy allows states to leave funds at the Conference until further notice. Some states have elected to sign a separate memorandum of understanding to more formally articulate the agreement. As of December 31, 2013, the Conference held \$8,826,675 due to 9 states. As of December 31, 2012, the Conference held \$9,841,655 due to 11 states.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

H. LINES OF CREDIT PAYABLE

On February 5, 2008, SRR entered into a line of credit with the Financial Industry Regulatory Authority, Inc. (FINRA), an unrelated party. Effective March 10, 2009, FINRA amended its line of credit to allow SRR to borrow up to \$10,000,000 (including accrued interest). The line of credit expired as of December 31, 2012. There were no amounts outstanding under the line of credit as of December 31, 2012. Interest expense related to this line of credit for the year ended December 31, 2012 was \$0. As a condition of securing the line of credit from FINRA, CSBS agreed to enter into a separate guaranty agreement with FINRA to guarantee the repayment of amounts borrowed by SRR under the line of credit.

On August 18, 2008, SRR entered into a line of credit with the American Association of Residential Mortgage Regulators (AARMR), an unrelated party. Under the terms of the line of credit agreement, SRR may borrow up to \$200,000 (excluding accrued interest) for use in funding the development and operation of NMLS. This line of credit expired on December 31, 2012. At December 31, 2012, no amounts were borrowed or outstanding by SRR. Interest expense from the line of credit was zero for the year ended December 31, 2012.

I. RETIREMENT PLANS

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. As a result of the termination of the defined benefit pension plan, the contribution provisions of the 401(k) plan were changed. Effective January 1, 2012, 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, 2013 and 2012 were \$906,226 and \$794,691, respectively.

Pension Plan: Through July 1, 2011, the Conference maintained a non-contributory defined benefit retirement plan covering substantially all its employees. The benefits were based on years of service and the employee's average compensation as defined by the plan. Pension expense included a provision for normal costs and the amortization of the past service cost over a period of 30 years.

Effective July 1, 2011, the plan was terminated. As such, all future benefit accruals ceased as of July 1, 2011 and no new entrants were allowed into the plan. As a result of the plan's termination, benefits totaling \$5,422,377 were paid to participants during the year ending December 31, 2012 in complete satisfaction of all benefit payment obligations. These benefit payments were made entirely from assets held by the plan. In conjunction with the final settlement of the plan's obligations, the Conference contributed \$2,209,999 to the plan in 2012. The plan had no remaining assets or benefit payment obligations as of December 31, 2012.

During the year ended December 31, 2012 the Conference recognized \$377,190 of expense connected with the final settlement and termination of the plan.

Given the plan's complete termination and distribution of all assets, there is no pension benefit obligation accrued on the statement of financial position as of December 31, 2013 and 2012.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

J. CLASSIFICATIONS OF NET ASSETS

Unrestricted, undesignated: Those net assets whose use is not restricted by donors or internally-designated for other uses.

Unrestricted, designated for reserves and development: The Conference has designated a portion of its unrestricted net assets as a reserve for the continued future maintenance and upgrading of NMLS.

Temporarily restricted: Temporarily restricted net assets include those net assets whose use by the Conference has been donor restricted by specified time or purpose limitations. The Conference's temporarily restricted net assets consist of \$16,000,000 received in 2012 for the creation of a State Regulatory Fund (see Note G) as well as grants contributed by CSBS and SRR to the Foundation for specific programmatic purposes.

Permanently Restricted Net Assets: Permanently restricted net assets consist of the Samuel Weinrott Memorial Scholarship Fund. The donors have stipulated that the corpus of the fund must remain in perpetuity. The earnings from the fund are restricted to provide scholarships to bank examiners at graduate schools for banking. The balance of the fund at both December 31, 2013 and 2012 was \$11,138.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

K. COMMITMENTS AND CONTINGENCIES

Leases: In May 2011, the Conference signed an operating lease for office space in Washington, D.C., which expires in April 2023. The lease contains an annual 2.5 percent rent escalation and requires the Conference to pay its proportionate share of operating expenses and real estate taxes. The Conference was provided a tenant allowance of \$1,488,297 and 9.5 months of rental abatement as incentives to lease the space. The Conference is recognizing the benefit of the tenant improvement allowance and rental abatements on a straight-line basis over the life of the lease. The unrecognized components of these items are presented as deferred rent on the statement of financial position.

In addition, during September 2013 the Conference entered into a sublease agreement for additional office space. The lease expires in June 2014 and may be continued on a monthly basis for an additional 12 months.

Rent expenses under these office space lease agreements amounted to approximately \$1,033,555 and \$994,556 for the years ended December 31, 2013 and 2012, respectively.

The following represents the future minimum lease payments under the office lease and sublease as of December 31, 2013:

Year ending December 31,:	Amount
2014	\$ 799,759
2015	771,544
2016	805,685
2017	833,254
2018	854,085
Thereafter	<u>3,952,095</u>
Total future minimum lease payments	<u>\$ 8,016,422</u>

In April 2014, the Conference signed an operating lease for additional office space for SRR in a building in Washington, D.C., commencing on May 1, 2014 and expiring on August 31, 2026 with monthly payments of approximately \$32,817. The lease contains an annual 2.5 percent rent escalation and requires the Conference to pay its proportionate share of operating expenses and real estate taxes. The lease agreement includes various rental abatements and a tenant improvement allowance. The financial impact of these items will be amortized over the term of the lease.

Vendor relationship: SRR has contracted with the Financial Industry Regulatory Authority, Inc. (FINRA) to develop and host the NMLS. FINRA also provides development support for the 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.

Contingent use tax liability: Subsequent to December 31, 2013, CSBS determined use tax was due to a taxing authority related to certain services performed, primarily related to SRR activities for which sales tax was not assessed by the vendors. Thus, SRR recorded a contingent liability as of December 31, 2013 for the anticipated settlement and related expenses in the amount of \$1,731,000. The contingent liability is presented within accounts payable and accrued expenses on the December 31, 2013 statement of financial position. The matter has not been resolved as of May 5, 2014.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

L. FUNCTIONAL PRESENTATION OF EXPENSES

The Conference provides various program services to its members. Expenses related to providing these services for the years ended December 31 are as follows:

	2013	2012
<u>Program services</u>		
NMLS	\$ 47,483,117	\$ 47,229,231
Education	2,929,479	2,724,652
Regulatory and Legislative	2,700,113	2,605,789
Communications	<u>200,275</u>	<u>195,856</u>
Total program services	<u>53,312,984</u>	<u>52,755,528</u>
<u>Supporting services</u>		
General and administrative	1,315,986	1,124,221
Marketing	<u>138,840</u>	<u>110,055</u>
Total supporting services	<u>1,454,826</u>	<u>1,234,276</u>
Total expenses	<u>\$ 54,767,810</u>	<u>\$ 53,989,804</u>

T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on the Other Financial Information

To the Board of Directors
Conference of State Bank Supervisors, Inc. and Affiliates

We have audited the consolidated financial statements of the Conference of State Bank Supervisors, Inc. and Affiliates (the Conference) as of and for the year ended December 31, 2013, and our report thereon dated May 5, 2014, which expressed an unmodified opinion on those financial statements, appears on page one. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial information on the following two pages is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Washington, DC
May 5, 2014

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

202/293-2200

FACSIMILE

202/293-2208

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Financial Position

<i>December 31, 2013</i>	CSBS	Foundation	SRR	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 30,470,827	\$ 901,370	\$ 40,804,498	\$ -	\$ 72,176,695
Accounts receivable, net	1,338	60,788	1,878,110	-	1,940,236
Investments	1,920,401	1,945,565	9,970,425	-	13,836,391
Prepaid expenses and other	505,172	80,503	113,978	-	699,653
Deferred compensation	643,517	-	-	-	643,517
Property and equipment, net	1,766,619	244,007	20,851,489	-	22,862,115
Capitalized test development costs, net	-	-	463,721	-	463,721
Due from affiliates	618,721	115,630	478,781	(1,213,132)	-
Investment in subsidiary	66,835,228	-	-	(66,835,228)	-
Total assets	\$ 102,761,823	\$ 3,347,863	\$ 74,561,002	\$ (68,048,360)	\$ 112,622,328
Liabilities and Net Assets					
Accounts payable and accrued expenses	\$ 674,867	\$ 81,493	\$ 6,398,492	\$ -	\$ 7,154,852
Day with the Commissioner	68,994	-	-	-	68,994
Deferred revenue	2,204,171	449,890	827,685	-	3,481,746
Deferred rent	1,868,637	-	-	-	1,868,637
Funds held for others	8,828,278	11,155	-	-	8,839,433
Deferred compensation	643,517	-	-	-	643,517
Due to affiliates	578,423	135,112	499,597	(1,213,132)	-
Total liabilities	14,866,887	677,650	7,725,774	(1,213,132)	22,057,179
Net assets					
Unrestricted					
Undesignated	30,203,111	2,208,137	25,143,403	(25,143,403)	32,411,248
Designated for reserves and development	41,691,825	-	41,691,825	(41,691,825)	41,691,825
Total unrestricted net assets	71,894,936	2,208,137	66,835,228	(66,835,228)	74,103,073
Temporarily restricted	16,000,000	450,938	-	-	16,450,938
Permanently restricted	-	11,138	-	-	11,138
Total net assets	87,894,936	2,670,213	66,835,228	(66,835,228)	90,565,149
Total liabilities and net assets	\$ 102,761,823	\$ 3,347,863	\$ 74,561,002	\$ (68,048,360)	\$ 112,622,328

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Activities

Year Ended December 31, 2013	CSBS	Foundation	SRR	Eliminations	Total
Unrestricted activities					
Revenue					
NMLS processing fees	\$ -	\$ -	\$ 38,633,747	\$ -	\$ 38,633,747
NMLS professional services	-	-	24,961,792	-	24,961,792
Dues	5,516,489	-	-	-	5,516,489
Registration fees	38,209	1,652,013	144,285	-	1,834,507
NMLS state development contributions	-	-	26,000	-	26,000
Accreditation of banking & mortgage departments	-	204,000	-	-	204,000
Other income	8,151	8,350	-	-	16,501
Investment income	471,547	369,752	(23,197)	-	818,102
Grants to affiliates	-	831,472	-	(831,472)	-
Income on Equity Investment in Subsidiary	15,440,499	-	-	(15,440,499)	-
Interest on SRR line of credit	67,901	-	-	(67,901)	-
Net assets released from restriction	-	81,229	-	-	81,229
Total unrestricted revenue	21,542,796	3,146,816	63,742,627	(16,339,872)	72,092,367
Expense					
Program expenses:					
NMLS professional services	-	-	14,483,636	-	14,483,636
NMLS system operations	-	-	14,125,884	-	14,125,884
NMLS - call center	-	-	5,152,798	-	5,152,798
Staff, board & member travel/meetings	136,037	1,233,401	880,718	-	2,250,156
Grants to affiliates	361,000	-	470,472	(831,472)	-
Professional services - legal, audit & other	212,222	187,779	1,727,298	-	2,127,299
Total program services	709,259	1,421,180	36,840,806	(831,472)	38,139,773
Staffing & administrative expenses:					
Salaries and benefits	3,030,228	1,231,607	7,015,958	-	11,277,793
Technology & general office	375,243	380,297	1,861,451	(67,901)	2,549,090
Rent and occupancy	160,737	56,504	852,913	-	1,070,154
Total supporting services	3,566,208	1,668,408	9,730,322	(67,901)	14,897,037
Total expense	4,275,467	3,089,588	46,571,128	(899,373)	53,036,810
Change in unrestricted net assets before other expense	17,267,329	57,228	17,171,499	(15,440,499)	19,055,557
Accrued loss on contingent liability	-	-	(1,731,000)	-	(1,731,000)
Change in unrestricted net assets	17,267,329	57,228	15,440,499	(15,440,499)	17,324,557
Temporarily restricted activities					
Contributions and interest income	-	-	-	-	-
Net assets released from restriction	-	(81,229)	-	-	(81,229)
Change in temporarily restricted net assets	-	(81,229)	-	-	(81,229)
Change in net assets	17,267,329	(24,001)	15,440,499	(15,440,499)	17,243,328
Net assets, beginning of year	70,627,607	2,694,214	51,394,729	(51,394,729)	73,321,821
Net assets, end of year	\$ 87,894,936	\$ 2,670,213	\$ 66,835,228	\$ (66,835,228)	\$ 90,565,149