

**Audited Consolidated Financial Statements  
and Supplementary Information**

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

**December 31, 2016**

# Conference of State Bank Supervisors, Inc. and Affiliates

## Contents

---

<i>Independent Auditor's Report on the Consolidated Financial Statements</i>	1
<i>Consolidated Financial Statements</i>	
Consolidated statements of financial position	2
Consolidated statements of activities	3
Consolidated statements of cash flows	4
Notes to consolidated financial statements	5 - 13
<i>Supplementary Information</i>	
Independent auditor's report on the supplementary information	14
Consolidating statement of financial position	15
Consolidating statement of activities	16

T A T E



TRYON

A Professional Corporation

Certified Public

Accountants

and Consultants

# 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, 2016, 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 2015 consolidated financial statements and, in our report dated April 28, 2016 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, 2016, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC  
April 28, 2017

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

<i>December 31,</i>	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 58,491,985	\$ 41,728,972
Accounts receivable, net of allowance for doubtful accounts of \$5,460 and \$2,320 for 2016 and 2015, respectively	609,762	352,812
Investments	76,057,914	73,125,316
Prepaid expenses and other	1,328,547	1,153,269
Deferred compensation	904,252	787,157
Property and equipment, net	16,765,373	18,890,566
Capitalized test development costs, net	59,092	122,221
<b>Total assets</b>	<b>\$ 154,216,925</b>	<b>\$ 136,160,313</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 5,479,701	\$ 6,168,533
Day with the Commissioner	100,989	88,689
Deferred revenue	3,743,221	3,469,393
Deferred rent	2,609,675	2,587,309
Funds held for others	2,623,046	4,032,685
Deferred compensation	904,252	789,271
Total liabilities	15,460,884	17,135,880
Net assets		
Unrestricted		
Undesignated	16,824,463	19,012,793
Designated for reserves and development	106,197,148	84,220,981
Total unrestricted net assets	123,021,611	103,233,774
Temporarily restricted	15,723,292	15,779,521
Permanently restricted	11,138	11,138
Total net assets	138,756,041	119,024,433
<b>Total liabilities and net assets</b>	<b>\$ 154,216,925</b>	<b>\$ 136,160,313</b>

See accompanying notes to consolidated financial statements.

**Conference of State Bank Supervisors, Inc. and Affiliates**  
**Consolidated Statements of Activities**  
**Year ended December 31, 2016**  
*(With comparative totals for the year ended December 31, 2015)*

<b>Year Ended December 31, 2016</b>	2016					<b>Total 2016</b>	<b>Total 2015</b>
	<b>Operations (Undesignated)</b>	<b>Designated for reserves</b>	<b>Total unrestricted activity</b>	<b>Temporarily restricted activity</b>	<b>Permanently restricted activity</b>		
Revenue							
NMLS processing fees	\$35,884,559	\$ 11,927,936	\$ 47,812,495	\$ -	\$ -	\$ 47,812,495	43,387,177
NMLS professional services	16,943,173	5,631,868	22,575,041	-	-	22,575,041	21,529,076
Dues	6,052,438	-	6,052,438	-	-	6,052,438	5,828,070
Registration fees	2,584,298	-	2,584,298	-	-	2,584,298	1,954,564
Accreditation of banking & mortgage departments	238,000	-	238,000	-	-	238,000	225,000
Other income	9,000	-	9,000	-	-	9,000	17,000
Investment income/ (loss)	2,979,077	-	2,979,077	-	-	2,979,077	(376,185)
Net assets released from restriction	56,229	-	56,229	(56,229)	-	-	-
<b>Total revenue</b>	<b>64,746,774</b>	<b>17,559,804</b>	<b>82,306,578</b>	<b>(56,229)</b>	<b>-</b>	<b>82,250,349</b>	<b>72,564,702</b>
Expenses							
Direct program expenses							
NMLS system operations	13,768,751	-	13,768,751	-	-	13,768,751	14,334,807
NMLS professional services	11,609,168	-	11,609,168	-	-	11,609,168	11,284,931
NMLS - call center	3,719,231	-	3,719,231	-	-	3,719,231	3,623,637
Professional services - legal, audit & other	4,564,066	-	4,564,066	-	-	4,564,066	3,418,407
Staff, board & member travel/meetings	2,995,366	-	2,995,366	-	-	2,995,366	2,800,206
Total direct program expenses	36,656,582	-	36,656,582	-	-	36,656,582	35,461,988
Staffing & administrative expenses							
Salaries and benefits	19,782,399	-	19,782,399	-	-	19,782,399	18,560,771
Technology & general office	4,274,212	-	4,274,212	-	-	4,274,212	4,010,708
Rent and occupancy	1,805,548	-	1,805,548	-	-	1,805,548	1,540,369
Total staffing & administrative expenses	25,862,159	-	25,862,159	-	-	25,862,159	24,111,848
<b>Total expenses</b>	<b>62,518,741</b>	<b>-</b>	<b>62,518,741</b>	<b>-</b>	<b>-</b>	<b>62,518,741</b>	<b>59,573,836</b>
<b>Change in net assets</b>	<b>2,228,033</b>	<b>17,559,804</b>	<b>19,787,837</b>	<b>(56,229)</b>	<b>-</b>	<b>19,731,608</b>	<b>12,990,866</b>
Net assets, beginning of year	19,012,793	84,220,981	103,233,774	15,779,521	11,138	119,024,433	106,033,567
Designation of net assets to reserves	(4,416,363)	4,416,363	-	-	-	-	-
<b>Net assets, end of year</b>	<b>\$ 16,824,463</b>	<b>\$ 106,197,148</b>	<b>\$ 123,021,611</b>	<b>\$ 15,723,292</b>	<b>\$ 11,138</b>	<b>\$ 138,756,041</b>	<b>\$ 119,024,433</b>

See accompanying notes to consolidated financial statements.

# Conference of State Bank Supervisors, Inc. and Affiliates

## Consolidated Statements of Cash Flows

<b>Year Ended December 31,</b>	<b>2016</b>	<b>2015</b>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 19,731,608	\$ 12,990,866
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	5,512,541	5,854,958
Loss on disposal of property and equipment	28,699	7,978
(Gain) loss on investments, net	(1,406,403)	2,012,204
Changes in assets and liabilities:		
Accounts receivable	(256,950)	239,919
Prepaid expenses and other	(175,278)	85,024
Deferred compensation asset	(117,095)	(26,882)
Accounts payable and accrued expenses	(688,832)	443,244
Day with the Commissioner	12,300	5,268
Deferred revenue	273,828	459,374
Deferred rent	22,366	(28,777)
Deferred compensation liability	114,981	28,996
Total adjustments	3,320,157	9,081,306
Net cash provided by operating activities	23,051,765	22,072,172
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(3,352,918)	(2,768,370)
Proceeds from the sale and redemption of investments	37,187	1,909,458
Purchases of investments	(1,563,382)	(3,506,550)
Net cash used in investing activities	(4,879,113)	(4,365,462)
<b>Cash Flows From Financing Activities</b>		
Disbursements of National Mortgage Settlement Funds and other funds held on behalf of States	(1,409,639)	(630,744)
Net cash used in financing activities	(1,409,639)	(630,744)
<b>Net increase in cash and cash equivalents</b>	<b>16,763,013</b>	<b>17,075,966</b>
Cash and cash equivalents, beginning of year	41,728,972	24,653,006
<b>Cash and cash equivalents, end of year</b>	<b>\$ 58,491,985</b>	<b>\$ 41,728,972</b>

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 Multistate Licensing System and Registry (NMLS) on behalf of state financial services regulatory agencies. CSBS is SRR's only member.

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

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

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

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 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

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

Accounts receivable: Accounts receivable consist primarily of amounts owed from customers for mortgage database processing fees, membership dues, conference & seminar registrations, 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 \$5,000 and depreciate them over estimated useful lives of 3 – 10 years using the straight-line method, with no salvage value.

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

Capitalized test development costs: In order to address provisions of the Secure and Fair Enforcement of Mortgage Licensing Act of 2008, SRR has developed a national test component as well as state-specific test components which all state-licensed mortgage loan originators registering on NMLS are required to take. As of December 31, 2016 and 2015, SRR had capitalized a total of \$1,009,642 and \$1,257,962, respectively, related to the development of these tests.

SRR is amortizing these test development costs over an estimated useful life of five years. During the year ended December 31, 2016 and 2015, amortization expense was \$63,129 and \$90,199, respectively.



# Conference of State Bank Supervisors, Inc. and Affiliates

## Notes to Consolidated Financial Statements

---

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net assets: Net assets are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions.

The Conference classifies certain components of its unrestricted net assets as being designated for reserves and development.

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

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

Comparative totals: The consolidated financial statements and footnote disclosures for the year December 31, 2015 are presented only to provide a basis for comparison with 2016. The 2015 consolidated financial statements and footnote disclosures are not intended to present all information necessary for a fair presentation in accordance with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Conference's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Subsequent events: Subsequent events have been evaluated through April 28, 2017, 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, 2016:

2016	Total	Level 1	Level 2	Level 3
Fixed income mutual funds & ETFs	\$ 59,909,188	\$ 59,909,188	\$ -	\$ -
Equity mutual funds & ETFs	16,130,431	16,130,431		
Deferred compensation investments	904,252	904,252		
<b>Assets carried at fair value</b>	<b>76,943,871</b>	<b>\$ 76,943,871</b>	<b>\$ -</b>	<b>\$ -</b>
Money market funds & cash*	18,295			
<b>Total</b>	<b>\$ 76,962,166</b>			

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, 2015:

2015	Total	Level 1	Level 2	Level 3
Fixed income mutual funds & ETFs	\$ 59,011,442	\$ 59,011,442	\$ -	\$ -
Equity mutual funds & ETFs	14,088,021	14,088,021		
Deferred compensation investments	787,157	787,157	-	-
<b>Assets carried at fair value</b>	<b>73,886,620</b>	<b>\$ 73,886,620</b>	<b>\$ -</b>	<b>\$ -</b>
Money market funds & cash*	25,853			
<b>Total</b>	<b>\$ 73,912,473</b>			

\*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 other than deferred compensation holdings consist of the following at December 31,:

	2016	2015
Money market funds	\$ 18,295	\$ 25,853
Equity mutual funds & ETFs	16,130,431	14,088,021
Fixed income mutual funds & ETFs	<u>59,909,188</u>	<u>59,011,442</u>
Total investments	<u><b>\$ 76,057,914</b></u>	<u><b>\$ 73,125,316</b></u>

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

	2016	2015
Dividends and interest	\$ 1,572,674	\$ 1,636,019
Net gain (loss) on investments	<u>1,406,403</u>	<u>(2,012,204)</u>
	<u><b>\$ 2,979,077</b></u>	<u><b>\$ (376,185)</b></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 contributions of \$78,960 and \$74,610 to the deferred compensation plan for the years ended December 31, 2016 and 2015, respectively. Also, during the years ended December 31, 2016 and 2015, benefit distributions of \$88,871 and \$85,796, respectively, were made from the plan. Assets designated for this plan consist of mutual funds.

The Conference also maintains a nonqualified deferred compensation plan established under Section 457(f) of the Internal Revenue Code for eligible senior staff of the Conference, to which the Conference makes contributions. As of December 31, 2016 no contributions have been made to the plan.

# 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,:

	2016	2015
NMLS licensing database	\$ 47,236,101	\$ 44,985,297
Computer equipment	510,605	381,270
Website development	840,185	887,828
Furniture and fixtures	1,464,452	883,735
Equipment	538,569	484,664
Leasehold improvements	2,065,196	1,922,089
	<u>52,655,108</u>	<u>49,544,883</u>
Less accumulated depreciation and amortization	<u>(35,889,735)</u>	<u>(30,654,317)</u>
Total property and equipment	<u><b>\$ 16,765,373</b></u>	<u><b>\$ 18,890,566</b></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 holds amounts on account for individual states. At the direction of individual states, the Conference holds these funds for future use such as training or educational programs sponsored by the Conference. The balance of these accounts was \$37,947 and \$23,780 at December 31, 2016 and 2015, 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. Since 2012 CSBS has distributed the funds to the states as directed by the states. As of December 31, 2016, the Conference held \$2,585,099 due to 5 states. As of December 31, 2015, the Conference held \$4,008,905 due to 6 states.

# Conference of State Bank Supervisors, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### H. 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. 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, 2016 and 2015 were \$1,590,127 and \$1,480,643, respectively.

### I. 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 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, SRR defines reserves as unrestricted net assets less investments in fixed assets and capitalized system and test development costs.

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

	2016	2015
CSBS	\$ 4,656,099	\$ 3,472,133
Foundation	1,780,591	2,048,194
SRR	99,760,458	78,700,654
Total reserves	<u>\$ 106,197,148</u>	<u>\$ 84,220,981</u>

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 \$15,723,292 and \$15,779,521 as of December 31, 2016 and 2015 respectively, restricted for use for the purposes of the 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, 2016 and 2015 was \$11,138.

# Conference of State Bank Supervisors, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### J. COMMITMENTS AND CONTINGENCIES

Leases: In May 2011, the Conference signed an operating lease for office space at 1129 20<sup>th</sup> Street NW, Washington, D.C., which expires in April 2023. The lease contains an annual 2.5 percent rent escalation and requires the Conference to pay its proportionate share of operating expenses and real estate taxes. The Conference was provided a tenant allowance of \$1,488,297 and 9.5 months of rental abatement as incentives to lease the space.

In April 2014, the Conference signed an operating lease for overflow office space for SRR at 1919 M Street NW, Washington, D.C., commencing on May 1, 2014 and expiring on August 31, 2026 with monthly payments of approximately \$32,800. The lease contains an annual 2.5 percent rent escalation and requires the Conference to pay its proportionate share of operating expenses and real estate taxes. The lease agreement includes various rental abatements and a tenant improvement allowance of \$724,240.

In connection with the 1919 M Street leased space, the Conference is also required to maintain a standby letter of credit of approximately \$131,000. As of December 31, 2016 and 2015, respectively, no amounts have been drawn on the letter of credit.

In April 2016, the Conference signed an operating lease for additional space at 1129 20<sup>th</sup> Street NW, Washington, D.C., which expired February 28, 2017, with monthly payments of approximately \$8,500.

In August 2016, the Conference signed an operating lease for additional space at 1129 20<sup>th</sup> Street NW, Washington, D.C, commencing on September 16, 2016 and expiring June 1, 2022 with monthly payments of approximately \$60,900. As a result of entering into this lease, the Conference has been able to locate all of its employees at 1129 20<sup>th</sup> Street. Thus, the overflow space at 1919 M Street is not being utilized. At the present time, the Conference believes that market conditions indicate that no loss should be recognized related to the unutilized space. The Conference is actively marketing the space for sublease but has not yet entered into a sublease agreement.

The Conference is recognizing the benefit of the tenant improvement allowances and rental abatements on a straight-line basis over the life of the leases. The unrecognized components of these items are presented as deferred rent on the consolidated statement of financial position.

Rent expenses under these office space lease agreements amounted to approximately \$1,782,000 and \$1,427,000 for the years ended December 31, 2016 and 2015, respectively.

The following represents the future minimum lease payments under the office leases as of December 31, 2016:

Year Ending December 31,:	Amount
2017	\$ 1,697,658
2018	2,046,773
2019	2,111,827
2020	2,181,384
2021	2,248,326
Thereafter	4,044,211
Total future minimum lease payments	<u>\$ 14,330,179</u>

# Conference of State Bank Supervisors, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### J. COMMITMENTS AND CONTINGENCIES - CONTINUED

Vendor relationship: SRR has contracted with the Financial Industry Regulatory Authority, Inc. (FINRA) to develop and host NMLS. FINRA also provides development support for NMLS education and testing components. Given the size of the FINRA services contract, a disruption in the capabilities provided by FINRA could have a detrimental impact on the Conference.

NMLS 2.0 development: In March 2017, the Boards of SRR and CSBS approved a contract for the development of NMLS 2.0, a redesign of the NMLS that will incorporate the latest technology and streamline the license approval process. The redesign of the NMLS will be performed by PwC and the services performed by FINRA will be gradually phased out. Budgeted expenditures range between \$42 million and \$50 million and the project is expected to be completed over several years.

### K. 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:

	2016	2015
<b><u>Program services</u></b>		
NMLS	\$ 52,920,035	\$ 50,913,148
Education	3,299,005	2,872,444
Regulatory and Legislative	4,234,053	3,865,310
Communications	109,890	125,662
Total program services	<u>60,562,982</u>	<u>57,776,564</u>
<b><u>Supporting services</u></b>		
General and administrative	1,876,539	1,719,042
Marketing	79,220	78,230
Total supporting services	<u>1,955,759</u>	<u>1,797,272</u>
Total expenses	<u>\$ 62,518,741</u>	<u>\$ 59,573,836</u>

T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

## Independent Auditor's Report on the Supplementary Information

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

We have audited the consolidated financial statements of the Conference of State Bank Supervisors, Inc. and Affiliates (the Conference) as of and for the years ended December 31, 2016 and 2015, and our report thereon dated April 28, 2017, 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  
April 28, 2017

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

December 31, 2016	CSBS	Foundation	SRR	Eliminations	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 9,031,679	\$ 150,475	\$ 49,309,831	\$ -	\$ 58,491,985
Accounts receivable, net	18,263	97,921	493,578	-	609,762
Investments	18,849,787	2,191,620	55,016,507	-	76,057,914
Prepaid expenses and other	903,299	89,521	335,727	-	1,328,547
Deferred compensation	904,252	-	-	-	904,252
Property and equipment, net	2,437,214	653,504	13,674,655	-	16,765,373
Capitalized test development costs, net	-	-	59,092	-	59,092
Due from affiliates	525,186	180,683	447,692	(1,153,561)	-
Investment in subsidiary	113,494,206	-	-	(113,494,206)	-
<b>Total assets</b>	<b>\$ 146,163,886</b>	<b>\$ 3,363,724</b>	<b>\$ 119,337,082</b>	<b>\$ (114,647,767)</b>	<b>\$ 154,216,925</b>
<b>Liabilities and Net Assets</b>					
Accounts payable and accrued expenses	\$ 888,765	\$ 90,477	\$ 4,500,459	\$ -	\$ 5,479,701
Day with the Commissioner	100,989	-	-	-	100,989
Deferred revenue	2,208,876	528,601	1,005,744	-	3,743,221
Deferred rent	2,609,675	-	-	-	2,609,675
Funds held for others	2,586,704	36,342	-	-	2,623,046
Deferred compensation	904,252	-	-	-	904,252
Due to affiliates	635,530	181,358	336,673	(1,153,561)	-
<b>Total liabilities</b>	<b>9,934,791</b>	<b>836,778</b>	<b>5,842,876</b>	<b>(1,153,561)</b>	<b>15,460,884</b>
<b>Net assets</b>					
<b>Unrestricted</b>					
Undesignated	16,170,959	653,504	13,733,748	(13,733,748)	16,824,463
Designated for reserves and development	104,416,557	1,780,591	99,760,458	(99,760,458)	106,197,148
<b>Total unrestricted net assets</b>	<b>120,587,516</b>	<b>2,434,095</b>	<b>113,494,206</b>	<b>(113,494,206)</b>	<b>123,021,611</b>
Temporarily restricted	15,641,579	81,713	-	-	15,723,292
Permanently restricted	-	11,138	-	-	11,138
<b>Total net assets</b>	<b>136,229,095</b>	<b>2,526,946</b>	<b>113,494,206</b>	<b>(113,494,206)</b>	<b>138,756,041</b>
<b>Total liabilities and net assets</b>	<b>\$ 146,163,886</b>	<b>\$ 3,363,724</b>	<b>\$ 119,337,082</b>	<b>\$ (114,647,767)</b>	<b>\$ 154,216,925</b>

# Conference of State Bank Supervisors, Inc. and Affiliates

## Consolidating Statement of Activities

Year Ended December 31, 2016	CSBS	Foundation	SRR	Eliminations	Total
<b>Unrestricted activities</b>					
Revenue					
NMLS processing fees	\$ -	\$ -	\$ 47,812,495	\$ -	\$ 47,812,495
NMLS professional services	-	-	22,575,041	-	22,575,041
Dues	6,052,438	-	-	-	6,052,438
Registration fees	54,160	1,935,016	595,122	-	2,584,298
Accreditation of banking & mortgage departments	-	238,000	-	-	238,000
Other income	558,000	-	1,000	(550,000)	9,000
Investment income	926,731	100,660	1,951,686	-	2,979,077
Grants to affiliates	-	1,364,102	-	(1,364,102)	-
Income on Equity Investment in Subsidiary	18,395,758	-	-	(18,395,758)	-
Net assets released from restriction	-	56,229	-	-	56,229
<b>Total unrestricted revenue</b>	<b>25,987,087</b>	<b>3,694,007</b>	<b>72,935,344</b>	<b>(20,309,860)</b>	<b>82,306,578</b>
Expense					
Direct program expenses:					
NMLS system operations	-	-	13,768,751	-	13,768,751
NMLS professional services	-	-	11,609,168	-	11,609,168
NMLS - call center	-	-	3,719,231	-	3,719,231
Professional services - legal, audit & other	240,665	262,876	4,610,525	(550,000)	4,564,066
Staff, board & member travel/meetings	355,388	1,639,144	1,000,834	-	2,995,366
Grants to affiliates	725,000	-	639,102	(1,364,102)	-
<b>Total direct program expenses</b>	<b>1,321,053</b>	<b>1,902,020</b>	<b>35,347,611</b>	<b>(1,914,102)</b>	<b>36,656,582</b>
Staffing & administrative expenses:					
Salaries and benefits	4,352,182	1,081,919	14,348,298	-	19,782,399
Technology & general office	573,994	391,438	3,308,780	-	4,274,212
Rent and occupancy	206,374	64,277	1,534,897	-	1,805,548
<b>Total supporting services</b>	<b>5,132,550</b>	<b>1,537,634</b>	<b>19,191,975</b>	<b>-</b>	<b>25,862,159</b>
<b>Total expense</b>	<b>6,453,603</b>	<b>3,439,654</b>	<b>54,539,586</b>	<b>(1,914,102)</b>	<b>62,518,741</b>
<b>Change in unrestricted net assets</b>	<b>19,533,484</b>	<b>254,353</b>	<b>18,395,758</b>	<b>(18,395,758)</b>	<b>19,787,837</b>
<b>Temporarily restricted activities</b>					
Net assets released from restriction	-	(56,229)	-	-	(56,229)
<b>Change in temporarily restricted net assets</b>	<b>-</b>	<b>(56,229)</b>	<b>-</b>	<b>-</b>	<b>(56,229)</b>
<b>Change in net assets</b>	<b>19,533,484</b>	<b>198,124</b>	<b>18,395,758</b>	<b>(18,395,758)</b>	<b>19,731,608</b>
Net assets, beginning of year	116,695,611	2,328,822	95,098,448	(95,098,448)	119,024,433
<b>Net assets, end of year</b>	<b>\$ 136,229,095</b>	<b>\$ 2,526,946</b>	<b>\$ 113,494,206</b>	<b>\$ (113,494,206)</b>	<b>\$ 138,756,041</b>