

**Audited Consolidated Financial Statements
and Supplementary Information**

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

December 31, 2015

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, 2015, 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 2014 consolidated financial statements and, in our report dated April 28, 2015 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, 2015, 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, 2016

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Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Financial Position

December 31,	2015	2014
Assets		
Cash and cash equivalents	\$ 41,728,972	\$ 24,653,006
Accounts receivable, net of allowance for doubtful accounts of \$2,320 and \$2,347 for 2015 and 2014, respectively	352,812	592,731
Investments	73,125,316	73,540,428
Prepaid expenses and other	1,153,269	1,238,293
Deferred compensation	787,157	760,275
Property and equipment, net	18,890,566	21,894,933
Capitalized test development costs, net	122,221	212,420
Total assets	\$ 136,160,313	\$ 122,892,086
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 6,168,533	\$ 5,725,289
Day with the Commissioner	88,689	83,421
Deferred revenue	3,469,393	3,010,019
Deferred rent	2,587,309	2,616,086
Funds held for others	4,032,685	4,663,429
Deferred compensation	789,271	760,275
Total liabilities	17,135,880	16,858,519
Net assets		
Unrestricted		
Undesignated	19,012,793	22,107,354
Designated for reserves and development	84,220,981	68,065,902
Total unrestricted net assets	103,233,774	90,173,256
Temporarily restricted	15,779,521	15,849,173
Permanently restricted	11,138	11,138
Total net assets	119,024,433	106,033,567
Total liabilities and net assets	\$ 136,160,313	\$ 122,892,086

See accompanying notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates
Consolidated Statements of Activities
Year ended December 31, 2015
(With comparative totals for the year ended December 31, 2014)

Year Ended December 31, 2015	2015					Total 2015	Total 2014
	Operations (Undesignated)	Designated for reserves	Total unrestricted activity	Temporarily restricted activity	Permanently restricted activity		
Revenue							
NMLS processing fees	\$ 35,143,613	\$ 8,243,564	\$ 43,387,177	\$ -	\$ -	\$ 43,387,177	40,021,633
NMLS professional services	17,438,552	4,090,524	21,529,076	-	-	21,529,076	20,764,373
Dues	5,828,070	-	5,828,070	-	-	5,828,070	5,810,564
Registration fees	1,954,564	-	1,954,564	-	-	1,954,564	1,893,327
Accreditation of banking & mortgage departments	225,000	-	225,000	-	-	225,000	206,000
Contributions	9,000	-	9,000	-	-	9,000	26,000
Other income	8,000	-	8,000	-	-	8,000	14,500
Investment (loss) income	(376,185)	-	(376,185)	-	-	(376,185)	861,337
Net assets released from restriction	69,652	-	69,652	(69,652)	-	-	-
Total revenue	60,300,266	12,334,088	72,634,354	(69,652)	-	72,564,702	69,597,734
Expenses							
Direct program expenses							
NMLS system operations	14,334,807	-	14,334,807	-	-	14,334,807	13,865,510
NMLS professional services	11,284,931	-	11,284,931	-	-	11,284,931	11,653,918
NMLS - call center	3,623,637	-	3,623,637	-	-	3,623,637	3,869,744
Professional services - legal, audit & other	3,418,407	-	3,418,407	-	-	3,418,407	3,281,251
Staff, board & member travel/meetings	2,800,206	-	2,800,206	-	-	2,800,206	2,728,267
Total direct program expenses	35,461,988	-	35,461,988	-	-	35,461,988	35,398,690
Staffing & administrative expenses							
Salaries and benefits	18,560,771	-	18,560,771	-	-	18,560,771	15,165,976
Technology & general office	4,010,708	-	4,010,708	-	-	4,010,708	3,359,751
Rent and occupancy	1,540,369	-	1,540,369	-	-	1,540,369	1,347,219
Total staffing & administrative expenses	24,111,848	-	24,111,848	-	-	24,111,848	19,872,946
Total expenses	59,573,836	-	59,573,836	-	-	59,573,836	55,271,636
Net change before other expense	726,430	12,334,088	13,060,518	(69,652)	-	12,990,866	14,326,098
Gain on contingent liability	-	-	-	-	-	-	1,142,320
Change in net assets	726,430	12,334,088	13,060,518	(69,652)	-	12,990,866	15,468,418
Net assets, beginning of year	22,107,354	68,065,902	90,173,256	15,849,173	11,138	106,033,567	90,565,149
Designation of net assets to reserves	(3,820,991)	3,820,991	-	-	-	-	-
Net assets, end of year	\$ 19,012,793	\$ 84,220,981	\$ 103,233,774	\$ 15,779,521	\$ 11,138	\$ 119,024,433	\$ 106,033,567

See accompanying notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Cash Flows

<i>Year Ended December 31,</i>	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ 12,990,866	\$ 15,468,418
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	5,854,958	6,414,679
Loss on disposal of property and equipment	7,978	2,788
Loss on disposal of capitalized development costs	-	40,607
Decrease (increase) in allowance for doubtful accounts	27	(23,490)
Loss (gain) on investments, net	2,012,204	(639,594)
Changes in assets and liabilities:		
Accounts receivable	239,892	1,370,995
Prepaid expenses and other	85,024	(538,640)
Deferred compensation asset	(26,882)	(116,758)
Accounts payable and accrued expenses	443,244	(1,429,563)
Day with the Commissioner	5,268	14,427
Deferred revenue	459,374	(471,727)
Deferred rent	(28,777)	747,449
Deferred compensation liability	28,996	116,758
Total adjustments	9,081,306	5,487,931
Net cash provided by operating activities	22,072,172	20,956,349
Cash Flows From Investing Activities		
Purchases of property and equipment	(2,768,370)	(5,239,591)
Proceeds from the sale and redemption of investments	1,909,458	2,626,000
Purchases of investments	(3,506,550)	(61,690,443)
Net cash used in investing activities	(4,365,462)	(64,304,034)
Cash Flows From Financing Activities		
Disbursements of National Mortgage Settlement Funds and other funds held on behalf of States	(630,744)	(4,176,004)
Net cash used in financing activities	(630,744)	(4,176,004)
Net increase (decrease) in cash and cash equivalents	17,075,966	(47,523,689)
Cash and cash equivalents, beginning of year	24,653,006	72,176,695
Cash and cash equivalents, end of year	\$ 41,728,972	\$ 24,653,006

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 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 both December 31, 2015 and 2014, SRR had capitalized a total of \$1,257,962 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, 2015 and 2014, amortization expense was \$90,199 and \$210,693, 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, 2014 are presented only to provide a basis for comparison with 2015. The 2014 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, 2014, from which the summarized information was derived.

Subsequent events: Subsequent events have been evaluated through April 28, 2016, 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, 2015:

2015	Total	Level 1	Level 2	Level 3
Fixed income mutual funds & ETFs	\$ 61,275,871	\$ 61,275,871	\$ -	\$ -
Equity mutual funds & ETFs	11,823,592	11,823,592		
Deferred compensation investments	787,157	787,157		
Assets carried at fair value	73,886,620	\$ 73,886,620	\$ -	\$ -
Money market funds & cash*	25,853			
Total	\$ 73,912,473			

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, 2014:

2014	Total	Level 1	Level 2	Level 3
Fixed income mutual funds & ETFs	\$ 63,856,267	\$ 63,856,267	\$ -	\$ -
Equity mutual funds & ETFs	9,222,135	9,222,135		
Deferred compensation investments	760,275	760,275		
Assets carried at fair value	73,838,677	\$ 73,838,677	\$ -	\$ -
Money market funds & cash*	462,026			
Total	\$ 74,300,703			

*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,:

	2015	2014
Money market funds	\$ 25,853	\$ 462,026
Equity mutual funds & ETFs	11,823,592	9,222,135
Fixed income mutual funds & ETFs	61,275,871	63,856,267
	<u>61,275,871</u>	<u>63,856,267</u>
Total investments	<u>\$ 73,125,316</u>	<u>\$ 73,540,428</u>

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

	2015	2014
Dividends and interest	\$ 1,636,019	\$ 221,743
Net (loss) gain on investments	(2,012,204)	639,594
	<u>(2,012,204)</u>	<u>639,594</u>
	<u>\$ (376,185)</u>	<u>\$ 861,337</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 \$74,610 and \$67,810 to the deferred compensation plan for the years ended December 31, 2015 and 2014, respectively. Also, during the years ended December 31, 2015 and 2014, benefit distributions of \$85,769 and \$42,608, respectively, were made from the plan. 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,:

	2015	2014
NMLS licensing database	\$ 44,985,297	\$ 42,589,566
Computer equipment	381,270	1,013,951
Website development	887,828	865,809
Furniture and fixtures	883,735	799,441
Equipment	484,664	332,240
Leasehold improvements	1,922,089	1,868,807
	<u>49,544,883</u>	<u>47,469,814</u>
Less accumulated depreciation and amortization	(30,654,317)	(25,574,881)
Total property and equipment	<u>\$ 18,890,566</u>	<u>\$ 21,894,933</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 \$23,780 and \$27,074 at December 31, 2015 and 2014, 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, 2015, the Conference held \$4,008,905 due to 6 states. As of December 31, 2014, the Conference held \$4,636,355 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, 2015 and 2014 were \$1,480,643 and \$1,188,132, 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 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,:

	2015	2014
CSBS	\$ 3,472,133	\$ 3,224,657
Foundation	2,048,194	1,955,043
SRR	78,700,654	62,886,202
Total reserves	<u>\$ 84,220,981</u>	<u>\$ 68,065,902</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 \$15,779,521 and \$15,849,173 as of December 31, 2015 and 2014 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, 2015 and 2014 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 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.

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 of \$724,240.

In April 2016, the Conference signed an operating lease for additional space in Washington, D.C., which expires February 28, 2017, with monthly payments of approximately \$8,500.

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 \$1,427,200 and \$1,229,657 for the years ended December 31, 2015 and 2014, respectively.

The following represents the future minimum lease payments under the office leases as of December 31, 2015:

Year Ending December 31,:	Amount
2016	\$ 1,208,764
2017	1,235,122
2018	1,281,659
2019	1,316,107
2020	1,353,836
Thereafter	<u>4,988,780</u>
Total future minimum lease payments	<u>\$ 11,384,268</u>

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

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

J. COMMITMENTS AND CONTINGENCIES - CONTINUED

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. During 2014, CSBS came to a settlement agreement with the taxing authority in the amount of \$588,680. The settlement amount was fully paid during 2014. Therefore, there was no contingent liability recorded as of December 31, 2014. SRR recognized a gain of \$1,142,320 during the year ended December 31, 2014 in connection with the write-off of the remaining contingent liability.

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:

	2015	2014
<u>Program services</u>		
NMLS	\$ 50,913,148	\$ 46,292,628
Education	2,872,444	3,399,035
Regulatory and Legislative Communications	3,865,310	3,839,349
	125,662	103,980
Total program services	<u>57,776,564</u>	<u>53,634,992</u>
<u>Supporting services</u>		
General and administrative	1,719,042	1,523,141
Marketing	78,230	113,503
Total supporting services	<u>1,797,272</u>	<u>1,636,644</u>
Total expenses	<u>\$ 59,573,836</u>	<u>\$ 55,271,636</u>

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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, 2015 and 2014, and our report thereon dated April 28, 2016, 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.

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April 28, 2016

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Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Financial Position

<i>December 31, 2015</i>	CSBS	Foundation	SRR	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 10,329,675	\$ 417,425	\$ 30,981,872	\$ -	\$ 41,728,972
Accounts receivable, net	13,603	38,390	300,819	-	352,812
Investments	17,936,568	2,092,113	53,096,635	-	73,125,316
Prepaid expenses and other	636,251	92,112	424,906	-	1,153,269
Deferred compensation	787,157	-	-	-	787,157
Property and equipment, net	2,483,445	131,548	16,275,573	-	18,890,566
Capitalized test development costs, net	-	-	122,221	-	122,221
Due from affiliates	846,787	179,308	844,561	(1,870,656)	-
Investment in subsidiary	95,098,448	-	-	(95,098,448)	-
Total assets	\$ 128,131,934	\$ 2,950,896	\$ 102,046,587	\$ (96,969,104)	\$ 136,160,313
Liabilities and Net Assets					
Accounts payable and accrued expenses	\$ 959,369	\$ 22,380	\$ 5,186,784	\$ -	\$ 6,168,533
Day with the Commissioner	88,689	-	-	-	88,689
Deferred revenue	1,979,294	450,748	1,039,351	-	3,469,393
Deferred rent	2,587,309	-	-	-	2,587,309
Funds held for others	4,010,508	22,177	-	-	4,032,685
Deferred compensation	789,271	-	-	-	789,271
Due to affiliates	1,021,883	126,769	722,004	(1,870,656)	-
Total liabilities	11,436,323	622,074	6,948,139	(1,870,656)	17,135,880
Net assets					
Unrestricted					
Undesignated	18,881,245	131,548	16,397,794	(16,397,794)	19,012,793
Designated for reserves and development	82,172,787	2,048,194	78,700,654	(78,700,654)	84,220,981
Total unrestricted net assets	101,054,032	2,179,742	95,098,448	(95,098,448)	103,233,774
Temporarily restricted	15,641,579	137,942	-	-	15,779,521
Permanently restricted	-	11,138	-	-	11,138
Total net assets	116,695,611	2,328,822	95,098,448	(95,098,448)	119,024,433
Total liabilities and net assets	\$ 128,131,934	\$ 2,950,896	\$ 102,046,587	\$ (96,969,104)	\$ 136,160,313

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Activities

<i>Year Ended December 31, 2015</i>	CSBS	Foundation	SRR	Eliminations	Total
Unrestricted activities					
Revenue					
NMLS processing fees	\$ -	\$ -	\$ 43,387,177	\$ -	\$ 43,387,177
NMLS professional services	-	-	21,529,076	-	21,529,076
Dues	5,828,070	-	-	-	5,828,070
Registration fees	43,383	1,676,964	234,217	-	1,954,564
Accreditation of banking & mortgage departments	-	225,000	-	-	225,000
Contributions	-	-	9,000	-	9,000
Other income	8,000	-	-	-	8,000
Investment loss	(153,679)	(58,326)	(164,180)	-	(376,185)
Grants to affiliates	-	1,139,961	-	(1,139,961)	-
Income on Equity Investment in Subsidiary	12,957,711	-	-	(12,957,711)	-
Interest on SRR line of credit	70,768	-	-	(70,768)	-
Net assets released from restriction	13,423	56,229	-	-	69,652
Total unrestricted revenue	18,767,676	3,039,828	64,995,290	(14,168,440)	72,634,354
Expense					
Direct program expenses:					
NMLS system operations	-	-	14,334,807	-	14,334,807
NMLS professional services	-	-	11,284,931	-	11,284,931
NMLS - call center	-	-	3,623,637	-	3,623,637
Professional services - legal, audit & other	240,354	160,874	3,017,179	-	3,418,407
Staff, board & member travel/meetings	491,850	1,405,354	903,002	-	2,800,206
Grants to affiliates	500,000	-	639,961	(1,139,961)	-
Total direct program expenses	1,232,204	1,566,228	33,803,517	(1,139,961)	35,461,988
Staffing & administrative expenses:					
Salaries and benefits	3,767,139	1,003,570	13,790,062	-	18,560,771
Technology & general office	568,670	378,273	3,134,533	(70,768)	4,010,708
Rent and occupancy	176,065	54,837	1,309,467	-	1,540,369
Total supporting services	4,511,874	1,436,680	18,234,062	(70,768)	24,111,848
Total expense	5,744,078	3,002,908	52,037,579	(1,210,729)	59,573,836
Change in unrestricted net assets	13,023,598	36,920	12,957,711	(12,957,711)	13,060,518
Temporarily restricted activities					
Contributions and interest income	-	-	-	-	-
Net assets released from restriction	(13,423)	(56,229)	-	-	(69,652)
Change in temporarily restricted net assets	(13,423)	(56,229)	-	-	(69,652)
Change in net assets	13,010,175	(19,309)	12,957,711	(12,957,711)	12,990,866
Net assets, beginning of year	103,685,436	2,348,131	82,140,737	(82,140,737)	106,033,567
Net assets, end of year	\$ 116,695,611	\$ 2,328,822	\$ 95,098,448	\$ (95,098,448)	\$ 119,024,433