

**Audited Consolidated Financial Statements
and Supplementary Information**

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

December 31, 2014

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

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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, 2014, 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 2013 consolidated financial statements and, in our report dated May 5, 2014 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, 2014, 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, 2015

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Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Financial Position

<i>December 31,</i>	2014	2013
Assets		
Cash and cash equivalents	\$ 24,653,006	\$ 72,176,695
Accounts receivable, net of allowance for doubtful accounts of \$2,347 and \$25,837 for 2014 and 2013, respectively	592,731	1,940,236
Investments	73,540,428	13,836,391
Prepaid expenses and other	1,238,293	699,653
Deferred compensation	760,275	643,517
Property and equipment, net	21,894,933	22,862,115
Capitalized test development costs, net	212,420	463,721
Total assets	\$ 122,892,086	\$ 112,622,328
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 5,725,289	\$ 7,154,852
Day with the Commissioner	83,421	68,994
Deferred revenue	3,010,019	3,481,746
Deferred rent	2,616,086	1,868,637
Funds held for others	4,663,429	8,839,433
Deferred compensation	760,275	643,517
Total liabilities	16,858,519	22,057,179
Net assets		
Unrestricted		
Undesignated	22,107,354	32,411,248
Designated for reserves and development	68,065,902	41,691,825
Total unrestricted net assets	90,173,256	74,103,073
Temporarily restricted	15,849,173	16,450,938
Permanently restricted	11,138	11,138
Total net assets	106,033,567	90,565,149
Total liabilities and net assets	\$ 122,892,086	\$ 112,622,328

See accompanying notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates
Consolidated Statements of Activities
Year ended December 31, 2014
(With comparative totals for the year ended December 31, 2013)

<i>Year Ended December 31, 2014</i>	2014					Total 2014	Total 2013
	Operations (Undesignated)	Designated for reserves	Total unrestricted activity	Temporarily restricted activity	Permanently restricted activity		
Revenue							
NMLS processing fees	\$ 31,617,090	\$ 8,404,543	\$ 40,021,633	\$ -	\$ -	\$ 40,021,633	\$ 38,633,747
NMLS professional services	16,403,855	4,360,518	20,764,373	-	-	20,764,373	24,961,792
Dues	5,810,564	-	5,810,564	-	-	5,810,564	5,516,489
Registration fees	1,893,327	-	1,893,327	-	-	1,893,327	1,834,507
Investment income	861,337	-	861,337	-	-	861,337	818,102
Accreditation of banking & mortgage departments	206,000	-	206,000	-	-	206,000	204,000
Contributions	26,000	-	26,000	-	-	26,000	26,000
Other income	14,500	-	14,500	-	-	14,500	16,501
Net assets released from restriction	601,765	-	601,765	(601,765)	-	-	-
Total revenue	57,434,438	12,765,061	70,199,499	(601,765)	-	69,597,734	72,011,138
Expenses							
Direct program expenses							
NMLS system operations	13,865,510	-	13,865,510	-	-	13,865,510	14,125,884
NMLS professional services	11,653,918	-	11,653,918	-	-	11,653,918	14,483,636
NMLS - call center	3,869,744	-	3,869,744	-	-	3,869,744	5,152,798
Professional services - legal, audit & other	3,281,251	-	3,281,251	-	-	3,281,251	2,127,299
Staff, board & member travel/meetings	2,728,267	-	2,728,267	-	-	2,728,267	2,250,156
Total direct program expenses	35,398,690	-	35,398,690	-	-	35,398,690	38,139,773
Staffing & administrative expenses							
Salaries and benefits	15,165,976	-	15,165,976	-	-	15,165,976	11,277,793
Technology & general office	3,359,751	-	3,359,751	-	-	3,359,751	2,549,090
Rent and occupancy	1,347,219	-	1,347,219	-	-	1,347,219	1,070,154
Total staffing & administrative expenses	19,872,946	-	19,872,946	-	-	19,872,946	14,897,037
Total expenses	55,271,636	-	55,271,636	-	-	55,271,636	53,036,810
Net change before other expense	2,162,802	12,765,061	14,927,863	(601,765)	-	14,326,098	18,974,328
Gain (loss) on contingent liability	-	1,142,320	1,142,320	-	-	1,142,320	(1,731,000)
Change in net assets	2,162,802	13,907,381	16,070,183	(601,765)	-	15,468,418	17,243,328
Net assets, beginning of year	32,411,248	41,691,825	74,103,073	16,450,938	11,138	90,565,149	73,321,821
Designation of net assets to reserves	(12,466,698)	12,466,698	-	-	-	-	-
Net assets, end of year	\$ 22,107,352	\$ 68,065,904	\$ 90,173,256	\$ 15,849,173	\$ 11,138	\$ 106,033,567	\$ 90,565,149

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>	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ 15,468,418	\$ 17,243,328
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	6,414,679	5,936,130
Loss on disposal of property and equipment	2,788	-
Loss on disposal of capitalized development costs	40,607	351,348
(Decrease) increase in allowance for doubtful accounts	(23,490)	7,153
Gain on investments, net	(639,594)	(634,403)
Changes in assets and liabilities:		
Accounts receivable	1,370,995	453,935
Prepaid expenses and other	(538,640)	(256,311)
Deferred compensation asset	(116,758)	(189,614)
Accounts payable and accrued expenses	(1,429,563)	(948,959)
Day with the Commissioner	14,427	(5,530)
Deferred revenue	(471,727)	305,093
Deferred rent	747,449	(80,715)
Deferred compensation liability	116,758	189,614
Total adjustments	5,487,931	5,127,741
Net cash provided by operating activities	20,956,349	22,371,069
Cash Flows From Investing Activities		
Purchases of property and equipment	(5,239,591)	(5,324,628)
Costs paid in developing tests	-	(38,908)
Proceeds from the sale and redemption of investments	2,626,000	162
Purchases of investments	(61,690,443)	(10,174,377)
Net cash used in investing activities	(64,304,034)	(15,537,751)
Cash Flows From Financing Activities		
Disbursements of National Mortgage Settlement Funds held on behalf of States	(4,176,004)	(1,027,806)
Net cash provided used in financing activities	(4,176,004)	(1,027,806)
Net (decrease) increase in cash and cash equivalents	(47,523,689)	5,805,512
Cash and cash equivalents, beginning of year	72,176,695	66,371,183
Cash and cash equivalents, end of year	\$ 24,653,006	\$ 72,176,695

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.

Uncertain income tax positions: The Conference 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 2011 through 2014 to be open for examination by taxing authorities.

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.

SRR is a temporary custodian of funds collected from mortgage and other licensees who use NMLS. The funds are held in a banking/sweep account, 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. Beginning July 2014, the funds are disbursed the same day they are received, net of any returned transactions. Prior to July 2014, funds were held for five business days to assure that funds collected through ACH and credit card charges had time to clear the banking system. As of December 31, 2013, SRR held a cash balance of \$6,380,771 not included in the statement of financial position which represented the amounts being held for the five day period.

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 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, 2014 and 2013, SRR had capitalized a total of \$1,257,962 and \$1,410,501, 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, 2014 and 2013, amortization expense was \$210,693 and \$489,774, 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.

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

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
Fixed income mutual funds & ETFs	\$ 9,957,532	\$ 9,957,532	\$ -	\$ -
Equity mutual funds & ETFs	3,433,371	3,433,371		
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			

*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,:

	2014	2013
Money market funds	\$ 462,026	\$ 445,488
Equity mutual funds & ETFs	9,222,135	3,433,371
Fixed income mutual funds & ETFs	<u>63,856,267</u>	<u>9,957,532</u>
Total investments	<u>\$ 73,540,428</u>	<u>\$ 13,836,391</u>

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

	2014	2013
Dividends and interest	\$ 221,743	\$ 183,699
Net gain on investments	<u>639,594</u>	<u>634,403</u>
	<u>\$ 861,337</u>	<u>\$ 818,102</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 \$67,810 and \$61,581 to the deferred compensation plan for the years ended December 31, 2014 and 2013, respectively. Also, during the years ended December 31, 2014 and 2013, benefit distributions of \$42,608 and \$0 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,:

	2014	2013
NMLS licensing database	\$ 42,589,566	\$ 38,676,909
Computer equipment	1,013,951	1,045,243
Website development	865,809	837,021
Furniture and fixtures	799,441	518,794
Equipment	332,240	33,223
Leasehold improvements	1,868,807	1,226,904
	<u>47,469,814</u>	<u>42,338,094</u>
Less accumulated depreciation and amortization	(25,574,881)	(19,475,979)
Total property and equipment	<u>\$ 21,894,933</u>	<u>\$ 22,862,115</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 \$27,074 and \$12,758 at December 31, 2014 and 2013, 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, 2014 and 2013, a total of \$4,010,000 and \$1,014,980 was distributed to 5 states and 3 states, respectively. In addition, the Conference disbursed \$180,320 and \$23,325 from custodial funds as requested by 2 states. The Board-adopted policy allows states to leave funds at the Conference until further notice. These 2 states have elected to sign a separate memorandum of understanding to more formally articulate the agreement. As of December 31, 2014, the Conference held \$4,636,355 due to 6 states. As of December 31, 2013, the Conference held \$8,826,675 due to 9 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, 2014 and 2013 were \$1,188,132 and \$906,226, 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: As of December 31, 2013, the Conference designated a portion of its unrestricted net assets as a reserve for the continued future maintenance and upgrading of NMLS.

In May 2014, the Conference established a Reserve Policy. The primary purposes of the reserves are to ensure that CSBS and affiliates are financially prepared to meet the needs for planned system enhancements as well as uninsurable risks. Reserves are defined 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,:

	2014	2013
CSBS	\$ 3,224,657	\$ -
Foundation	1,955,043	-
SRR	62,886,202	41,691,825
Total reserves	\$ 68,065,902	\$ 41,691,825

The balances as presented at December 31, 2013 were prior to the implementation of the new policy. A designation of net assets of \$12,466,698 was made on the Consolidated Statements of Activities to reflect the new policy.

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 \$15,849,173 and \$16,450,938 as of December 31, 2014 and 2013 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, 2014 and 2013 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 addition, during September 2013 the Conference entered into a sublease agreement for additional office space. The lease expired in June 2014 and the lease was not renewed.

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.

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 \$1,229,657 and \$1,033,555 for the years ended December 31, 2014 and 2013, respectively.

The following represents the future minimum lease payments under the office leases as of December 31, 2014:

Year ending December 31,:	Amount
2015	\$ 1,049,280
2016	1,135,324
2017	1,218,122
2018	1,281,659
2019	1,316,107
Thereafter	<u>6,342,616</u>
Total future minimum lease payments	<u>\$ 12,343,108</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:

	2014	2013
<u>Program services</u>		
NMLS	\$ 46,292,628	\$ 47,483,117
Education	3,399,035	2,929,479
Regulatory and Legislative Communications	3,839,349	2,700,113
	103,980	200,275
Total program services	<u>53,634,992</u>	<u>53,312,984</u>
<u>Supporting services</u>		
General and administrative	1,523,141	1,315,986
Marketing	113,503	138,840
Total supporting services	<u>1,636,644</u>	<u>1,454,826</u>
Total expenses	<u>\$ 55,271,636</u>	<u>\$ 54,767,810</u>

T A T E



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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, 2014 and 2013, and our report thereon dated April 28, 2015, 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, 2015

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Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Financial Position

December 31, 2014	CSBS	Foundation	SRR	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 10,123,709	\$ 347,290	\$ 14,182,007	\$ -	\$ 24,653,006
Accounts receivable, net	217,226	25,766	349,739	-	592,731
Investments	18,102,543	2,151,340	53,286,545	-	73,540,428
Prepaid expenses and other	829,676	92,505	316,112	-	1,238,293
Deferred compensation	760,275	-	-	-	760,275
Property and equipment, net	2,665,041	187,777	19,042,115	-	21,894,933
Capitalized test development costs, net	-	-	212,420	-	212,420
Due from affiliates	716,130	392,699	750,537	(1,859,366)	-
Investment in subsidiary	82,140,737	-	-	(82,140,737)	-
Total assets	\$ 115,555,337	\$ 3,197,377	\$ 88,139,475	\$ (84,000,103)	\$ 122,892,086
Liabilities and Net Assets					
Accounts payable and accrued expenses	\$ 749,667	\$ 228,414	\$ 4,747,208	\$ -	\$ 5,725,289
Day with the Commissioner	83,421	-	-	-	83,421
Deferred revenue	1,883,142	447,489	679,388	-	3,010,019
Deferred rent	2,616,086	-	-	-	2,616,086
Funds held for others	4,637,958	25,471	-	-	4,663,429
Deferred compensation	760,275	-	-	-	760,275
Due to affiliates	1,139,352	147,872	572,142	(1,859,366)	-
Total liabilities	11,869,901	849,246	5,998,738	(1,859,366)	16,858,519
Net assets					
Unrestricted					
Undesignated	21,919,577	187,777	19,254,535	(19,254,535)	22,107,354
Designated for reserves and development	66,110,859	1,955,043	62,886,202	(62,886,202)	68,065,902
Total unrestricted net assets	88,030,436	2,142,820	82,140,737	(82,140,737)	90,173,256
Temporarily restricted	15,655,000	194,173	-	-	15,849,173
Permanently restricted	-	11,138	-	-	11,138
Total net assets	103,685,436	2,348,131	82,140,737	(82,140,737)	106,033,567
Total liabilities and net assets	\$ 115,555,337	\$ 3,197,377	\$ 88,139,475	\$ (84,000,103)	\$ 122,892,086

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Activities

<i>Year Ended December 31, 2014</i>	CSBS	Foundation	SRR	Eliminations	Total
Unrestricted activities					
Revenue					
NMLS processing fees	\$ -	\$ -	\$40,021,633	\$ -	\$ 40,021,633
NMLS professional services	-	-	20,764,373	-	20,764,373
Dues	5,810,564	-	-	-	5,810,564
Registration fees	32,982	1,706,456	153,889	-	1,893,327
Investment income	334,993	206,472	319,872	-	861,337
Accreditation of banking & mortgage departments	-	206,000	-	-	206,000
NMLS state development contributions	-	-	26,000	-	26,000
Other income	8,000	6,500	-	-	14,500
Grants to affiliates	-	1,117,519	-	(1,117,519)	-
Income on Equity Investment in Subsidiary	15,305,509	-	-	(15,305,509)	-
Interest on SRR line of credit	59,686	-	-	(59,686)	-
Net assets released from restriction	345,000	256,765	-	-	601,765
Total unrestricted revenue	21,896,734	3,499,712	61,285,767	(16,482,714)	70,199,499
Expense					
Direct program expenses:					
NMLS system operations	-	-	13,865,510	-	13,865,510
NMLS professional services	-	-	11,653,918	-	11,653,918
NMLS - call center	-	-	3,869,744	-	3,869,744
Professional services - legal, audit & other	655,642	466,407	2,159,202	-	3,281,251
Staff, board & member travel/meetings	381,615	1,345,492	1,001,160	-	2,728,267
Grants to affiliates	663,214	-	454,305	(1,117,519)	-
Total direct program expenses	1,700,471	1,811,899	33,003,839	(1,117,519)	35,398,690
Staffing & administrative expenses:					
Salaries and benefits	3,357,109	1,276,892	10,531,975	-	15,165,976
Technology & general office	537,594	425,071	2,456,772	(59,686)	3,359,751
Rent and occupancy	166,060	51,167	1,129,992	-	1,347,219
Total supporting services	4,060,763	1,753,130	14,118,739	(59,686)	19,872,946
Total expense	5,761,234	3,565,029	47,122,578	(1,177,205)	55,271,636
Change in unrestricted net assets before other item	16,135,500	(65,317)	14,163,189	(15,305,509)	14,927,863
Gain on contingent liability	-	-	1,142,320	-	1,142,320
Change in unrestricted net assets	16,135,500	(65,317)	15,305,509	(15,305,509)	16,070,183
Temporarily restricted activities					
Contributions and interest income	-	-	-	-	-
Net assets released from restriction	(345,000)	(256,765)	-	-	(601,765)
Change in temporarily restricted net assets	(345,000)	(256,765)	-	-	(601,765)
Change in net assets	15,790,500	(322,082)	15,305,509	(15,305,509)	15,468,418
Net assets, beginning of year	87,894,936	2,670,213	66,835,228	(66,835,228)	90,565,149
Net assets, end of year	\$ 103,685,436	\$ 2,348,131	\$ 82,140,737	\$ (82,140,737)	\$ 106,033,567