

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

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

December 31, 2012

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 statements of financial position of the Conference of State Bank Supervisors, Inc. and Affiliates (the Conference) as of December 31, 2012, 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 2011 consolidated financial statements and, in our report dated June 28, 2012 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC
April 30, 2013

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

202/293-2200

FACSIMILE

202/293-2208

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidated Statements of Financial Position

December 31,	2012	2011
Assets		
Cash and cash equivalents - Note B	\$ 66,371,183	\$ 30,773,986
Accounts receivable, net of allowance for doubtful accounts of \$18,684 and \$21,236 for 2012 and 2011, respectively	2,401,324	2,025,477
Investments - Notes B & C	3,027,773	2,671,074
Prepaid expenses and other	443,342	542,146
Deferred compensation - Notes C & D	453,903	481,429
Property and equipment, net - Note E	22,978,843	22,188,977
Capitalized test development costs, net	1,270,935	1,589,173
Total assets	\$ 96,947,303	\$ 60,272,262
Liabilities and Net Assets		
Accounts payable and accrued expenses - Note K	\$ 8,103,811	\$ 7,463,774
Day with the Commissioner - Note F	74,524	61,239
Deferred revenue	3,176,653	3,048,431
Deferred rent - Note K	1,949,352	2,020,706
Funds held for others - Note G	9,867,239	27,463
Deferred compensation - Notes C & D	453,903	481,429
Accrued pension cost - Note I	-	1,832,809
Total liabilities	23,625,482	14,935,851
Commitments - Notes H & K	-	-
Net assets - Note J		
Unrestricted		
Undesignated	27,614,667	23,479,746
Designated for reserves and development - SRR	27,523,940	18,453,220
Designated reserves for future programs - Foundation	1,639,909	2,029,447
Total unrestricted net assets	56,778,516	43,962,413
Temporarily restricted	16,532,167	1,362,860
Permanently restricted	11,138	11,138
Total net assets	73,321,821	45,336,411
Total liabilities and net assets	\$ 96,947,303	\$ 60,272,262

See accompanying notes to consolidated financial statements.

Conference of State Bank Supervisors, Inc. and Affiliates
Consolidated Statements of Activities
Year ended December 31, 2012
(With comparative totals for the year ended December 31, 2011)

<i>Year Ended December 31,</i>	2012					Total 2012	Total 2011
	Operations (Undesignated)	Designated for reserves	Total unrestricted activity	Temporarily restricted activity	Permanently restricted activity		
Revenue							
NMLS processing fees	\$ 28,798,727	\$ 5,082,128	\$ 33,880,855	\$ -	\$ -	\$ 33,880,855	\$ 42,141,768
NMLS professional services	21,072,022	3,718,592	24,790,614	-	-	24,790,614	34,830,013
Dues	5,024,940	-	5,024,940	-	-	5,024,940	4,852,651
Registration fees	148,618	1,268,085	1,416,703	-	-	1,416,703	2,077,064
Contributions	-	270,000	270,000	16,000,000	-	16,270,000	510,275
Accreditation of banking & mortgage departments	-	219,000	219,000	-	-	219,000	244,000
Other income	8,056	7,330	15,386	-	-	15,386	68,887
Investment income	200,270	157,446	357,716	-	-	357,716	47,291
Net assets released from restriction	-	830,693	830,693	(830,693)	-	-	-
Total revenue	55,252,633	11,553,274	66,805,907	15,169,307	-	81,975,214	84,771,949
Expenses							
Program expenses							
NMLS professional services	16,850,410	-	16,850,410	-	-	16,850,410	24,538,751
NMLS system operations	15,847,125	9,276	15,856,401	-	-	15,856,401	15,105,979
NMLS - call center	5,344,996	-	5,344,996	-	-	5,344,996	7,353,250
Staff, board & member travel/meetings	587,504	918,264	1,505,768	-	-	1,505,768	1,459,282
Professional services - legal, audit & other	1,059,172	381,144	1,440,316	-	-	1,440,316	1,052,586
Total program expenses	39,689,207	1,308,684	40,997,891	-	-	40,997,891	49,509,848
Staffing & administrative expenses							
Salaries and benefits	8,290,163	1,133,737	9,423,900	-	-	9,423,900	9,116,818
Technology & general office	1,725,247	341,722	2,066,969	-	-	2,066,969	1,918,850
Rent and occupancy	1,066,080	57,774	1,123,854	-	-	1,123,854	1,262,339
Total staffing & administrative expenses	11,081,490	1,533,233	12,614,723	-	-	12,614,723	12,298,007
Total expenses	50,770,697	2,841,917	53,612,614	-	-	53,612,614	61,807,855
Net change before other (expense) income	4,481,936	8,711,357	13,193,293	15,169,307	-	28,362,600	22,964,094
Final pension settlement expense	(347,015)	(30,175)	(377,190)	-	-	(377,190)	-
Accrued loss on contingent liability - Note K	-	-	-	-	-	-	(1,300,000)
Pension related changes other than net periodic costs	-	-	-	-	-	-	528,878
Change in net assets	4,134,921	8,681,182	12,816,103	15,169,307	-	27,985,410	22,192,972
Net assets, beginning of year	23,479,746	20,482,667	43,962,413	1,362,860	11,138	45,336,411	23,143,439
Net assets, end of year	\$ 27,614,667	\$ 29,163,849	\$ 56,778,516	\$ 16,532,167	\$ 11,138	\$ 73,321,821	\$ 45,336,411

*Certain 2011 items have been reclassified for comparative purposes.
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>	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ 27,985,410	\$ 22,192,972
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	5,247,622	4,483,465
(Gain) loss on disposal of property and equipment	(1,300)	41,552
Decrease in allowance for doubtful accounts	(2,552)	(35,862)
Gain on investments, net	(301,660)	(52)
Changes in assets and liabilities:		
Accounts receivable	(373,295)	38,478
Prepaid expenses and other	98,804	98,666
Accounts payable and accrued expenses	640,037	(2,613,968)
Day with the Commissioner	13,285	(7,465)
Deferred revenue	128,222	379,449
Deferred rent	(71,354)	2,020,706
Funds held for others	(1,879)	(23,809)
Deferred compensation liability	(27,526)	110,055
Accrued pension cost	(1,832,809)	(935,218)
Total adjustments	3,515,595	3,555,997
Net cash provided by operating activities	31,501,005	25,748,969
Cash Flows From Investing Activities		
Net purchases of property and equipment	(5,581,869)	(8,407,544)
Costs paid in developing tests	(136,081)	(66,377)
Proceeds from the sale and redemption of investments	602	799
Purchases of investments	(55,641)	(45,626)
Sales (purchases) of deferred compensation assets	27,526	(110,055)
Net cash used in investing activities	(5,745,463)	(8,628,803)
Cash Flows From Financing Activities		
Net receipts of National Mortgage Settlement Funds held on behalf of States	9,841,655	-
Payments on line of credit balances	-	(19,063)
Net cash provided by (used in) financing activities	9,841,655	(19,063)
Net increase in cash and cash equivalents	35,597,197	17,101,103
Cash and cash equivalents, beginning of year	30,773,986	13,672,883
Cash and cash equivalents, end of year	\$ 66,371,183	\$ 30,773,986
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ -	\$ 2,982

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 Education Foundation of State Bank Supervisors (the Foundation) was formed in January 1985 to carry on the educational and scholarship activities of state banking department personnel. During 2012, the Foundation changed its name to CSBS Education Foundation.

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

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

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

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

Income tax status: By letter dated May 12, 2012, the Internal Revenue Service (IRS) notified CSBS that it is exempt from the payment of Federal income taxes on income other than unrelated business income under Section 501(c)(3) of the Internal Revenue Code (IRC). CSBS's 501(c)(3) status became effective retroactive to March 25, 2011 and CSBS is now classified as other than a private foundation. Prior to March 25, 2011, CSBS was exempt from the payment of income taxes on income other than unrelated business income under Section 501(c)(6) of the IRC. As such, in accordance with the Revenue Reconciliation Act of 1993, CSBS had elected to pay the proxy tax on its lobbying expenditures for the year ended December 31, 2011, which totaled \$51,062. The tax is included in 2011 general and administrative expenses on the accompanying consolidated statements of activities.

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

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

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Uncertain income tax positions: The Organization believes that it has appropriate support for any tax positions taken, and therefore, does not have any uncertain tax positions that are material to the financial statements. Management considers the years from 2009 through 2012 to be open for examination by taxing authorities.

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

SRR is a temporary custodian of funds collected from mortgage licensees who use the NMLS. These funds are not recorded on SRR's balance sheet. The funds are held in a banking/sweep account for approximately eight days in order to assure that funds collected through ACH and credit card charges have time to clear the banking system; then SRR remits the collected funds to the appropriate states and transfers the portion belonging to SRR as a processing fee to its own operating account. Cash balances held in this banking account were \$3,000,616 and \$4,423,551 as of December 31, 2012 and 2011, respectively.

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

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

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

Capitalized test development costs: In order to address provisions of the Secure and Fair Enforcement of Mortgage Licensing Act of 2008, SRR has developed a national test component as well as unique state-specific test components which all state-licensed mortgage loan originators registering on the NMLS are required to take. As of December 31, 2012 and 2011, SRR had capitalized a total of \$2,474,053 and \$2,337,972, respectively, related to the development of these tests.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

SRR is amortizing these test development costs over an estimated useful life of five years. During the year ended December 31, 2012 and 2011, amortization expense of \$454,319 and \$361,919, respectively, is included in general and administrative expenses on the accompanying consolidated statements of activities.

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

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

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

Subsequent events: Subsequent events have been evaluated through April 30, 2013, 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 also invests funds in equity mutual funds. 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, 2012:

2012	Total	Level 1	Level 2	Level 3
Investments	\$ 3,027,773	\$ 3,027,773	\$ -	\$ -
Deferred compensation assets	453,903	453,903		
Total	\$ 3,481,676	\$ 3,481,676	\$ -	\$ -

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, 2011:

2011	Total	Level 1	Level 2	Level 3
Investments	\$ 2,671,074	\$ 2,671,074	\$ -	\$ -
Deferred compensation assets	481,429	481,429		
Total	\$ 3,152,503	\$ 3,152,503	\$ -	\$ -

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

C. INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED

Investments consist of the following at December 31,:

	2012	2011
Money market funds	\$ 433,197	\$ 433,793
Equity mutual funds	<u>2,594,576</u>	<u>2,237,281</u>
Total investments	<u>\$ 3,027,773</u>	<u>\$ 2,671,074</u>

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

	2012	2011
Dividends and interest	\$ 56,056	\$ 47,239
Net gain on investments	<u>301,660</u>	<u>52</u>
	<u>\$ 357,716</u>	<u>\$ 47,291</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 \$34,975 to the deferred compensation plan for the year ended December 31, 2012. Also during the year ended December 31, 2012, benefit distributions of \$143,367 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,:

	2012	2011
Furniture and fixtures	\$ 513,622	\$ 475,378
Equipment	20,937	12,707
Computer equipment	895,109	865,249
Auto	-	46,847
Leasehold improvements	1,226,904	1,548,831
NMLS licensing database	34,525,422	29,167,141
Website development	581,087	513,588
	<u>37,763,081</u>	<u>32,629,741</u>
Less accumulated depreciation and amortization	(14,784,238)	(10,440,764)
Total property and equipment	<u>\$ 22,978,843</u>	<u>\$ 22,188,977</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 \$25,584 and \$27,463 at December 31, 2012 and 2011, 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 year ended December 31, 2012, a total of \$39,158,345 was distributed to 41 states, with certain states only requesting partial distributions thus far of their \$1,000,000 awards. The Board-adopted policy allows states to leave funds at the Conference until further notice. Some states have elected to sign a separate memorandum of understanding to more formally articulate the agreement. As of December 31, 2012, the Conference holds \$9,841,655 due to 11 states.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

H. LINES OF CREDIT PAYABLE

On February 5, 2008, SRR entered into a line of credit with the Financial Industry Regulatory Authority, Inc. (FINRA), an unrelated party. Effective March 10, 2009, FINRA amended its line of credit to allow SRR to borrow up to \$10,000,000 (including accrued interest). The line of credit expired as of December 31, 2012. There were no amounts outstanding under the line of credit as of December 31, 2012 and 2011. Interest expense related to this line of credit for the years ended December 31, 2012 and 2011 was \$0 and \$2,982 respectively. As a condition of securing the line of credit from FINRA, CSBS agreed to enter into a separate guaranty agreement with FINRA to guarantee the repayment of amounts borrowed by SRR under the line of credit.

On August 18, 2008, SRR entered into a line of credit with the American Association of Residential Mortgage Regulators (AARMR), an unrelated party. Under the terms of the line of credit agreement, SRR may borrow up to \$200,000 (excluding accrued interest) for use in funding the development and operation of NMLS. At December 31, 2012 and 2011, no amounts were borrowed or outstanding by SRR. Interest expense from the line of credit was zero for the years ended December 31, 2012 and 2011, respectively. This line of credit expired on December 31, 2012.

I. RETIREMENT PLANS

401(k) Plan: The Conference has a defined contribution plan for its employees under section 401(k) of the Internal Revenue Code. Elective contributions can be made by all employees 21 years of age or older. As a result of the termination of the defined benefit pension plan, the contribution provisions of the 401(k) plan were changed. Effective January 1, 2012, the Conference makes a non-elective contribution equal to 3% of each participant's eligible salary. In addition, the Conference matches each participant's elective deferrals up to 5% of eligible salary. The Conference may also make discretionary contributions to the plan. Vesting is determined based on the nature of each plan contribution. The Conference's total contributions for the years ended December 31, 2012 and 2011 were \$794,691 and \$222,301, respectively.

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

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

Given the plan's complete termination and distribution of all assets, there is no pension benefit obligation accrued on the statement of financial position as of December 31, 2012. The Conference had recorded an accrued pension liability of \$1,832,809 as of December 31, 2011.

During the year ended December 31, 2012 the Conference recognized \$377,190 of expense connected with the final settlement and termination of the plan. During the year ended December 31, 2011, the Conference recognized a net pension benefit of \$146,668 in connection with the curtailment and pending settlement of the plan.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

J. CLASSIFICATIONS OF NET ASSETS

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

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

Unrestricted, designated reserves for future programs: The Foundation has designated its unexpended, unrestricted net assets to be applied toward the development of future programs related to its exempt purpose.

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

Permanently Restricted Net Assets: Permanently restricted net assets consist of the Samuel Weinrott Memorial Scholarship Fund. The donors have stipulated that the corpus of the fund must remain in perpetuity. The earnings from the fund are restricted to provide scholarships to bank examiners at graduate schools for banking. The balance of the fund at both December 31, 2012 and 2011 was \$11,138.

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

K. COMMITMENTS AND CONTINGENCIES

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

In conjunction with the move to the new office, the Conference subleased a portion of its previous office space through May 31, 2012. The cash flows to be received from these subleases were less than the future minimum payments required by the office lease. Therefore, the Conference recorded an accrued loss related to the vacant and subleased office space of \$-0- and \$65,775 as of December 31, 2012 and 2011, respectively.

Rent expenses under these office space lease agreements amounted to approximately \$994,556 and \$1,197,000 for the years ended December 31, 2012 and 2011, respectively.

The following represents the future minimum lease payments under the office lease as of December 31, 2012:

Year ending December 31,:	Amount
2013	\$ 734,367
2014	752,726
2015	771,544
2016	805,685
2017	833,254
Thereafter	<u>4,806,180</u>
Total future minimum lease payments	<u>\$ 8,703,756</u>

Contingent Liability: During 2011, SRR was a party to a lawsuit related to the initial funding of the NMLS. As such, for financial statement purposes, SRR recorded a contingent liability for the anticipated settlement and related expenses in the amount of \$1.3 million. The contingent liability was presented within accounts payable and accrued expenses on the December 31, 2011 statement of financial condition. The matter was resolved in 2012 for an amount that approximated the accrued liability.

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

Conference of State Bank Supervisors, Inc. and Affiliates

Notes to Consolidated Financial Statements

L. FUNCTIONAL PRESENTATION OF EXPENSES

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

	2012	2011
<u>Program services</u>		
NMLS	\$ 47,229,231	\$ 54,641,065
Education	2,724,652	2,809,049
Regulatory and Legislative Communications	2,605,789	2,413,601
	<u>195,856</u>	<u>410,598</u>
Total program services	<u>52,755,528</u>	<u>60,274,313</u>
<u>Supporting services</u>		
General and administrative	1,124,221	1,452,884
Marketing	<u>110,055</u>	<u>80,658</u>
Total supporting services	<u>1,234,276</u>	<u>1,533,542</u>
Total expenses	<u>\$ 53,989,804</u>	<u>\$ 61,807,855</u>

T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on the Other Financial Information

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

We have audited the consolidated financial statements of the Conference of State Bank Supervisors, Inc. and Affiliates (the Conference) as of and for the year ended December 31, 2012, and our report thereon dated April 30, 2013, 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 30, 2013

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

202/293-2200

FACSIMILE

202/293-2208

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Financial Position

<i>December 31, 2012</i>	CSBS	Foundation	SRR	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 30,456,343	\$ 874,812	\$ 35,040,028	\$ -	\$ 66,371,183
Accounts receivable, net	153,536	153,842	2,093,946	-	2,401,324
Investments	1,451,272	1,576,501	-	-	3,027,773
Prepaid expenses and other	410,329	33,013	-	-	443,342
Deferred compensation	453,903	-	-	-	453,903
Property and equipment, net	1,668,820	300,236	21,009,787	-	22,978,843
Capitalized test development costs, net	-	-	1,270,935	-	1,270,935
Due from affiliates	7,969,022	1,348,507	7,026,383	(16,343,912)	-
Investment in subsidiary	51,394,729	-	-	(51,394,729)	-
Total assets	\$ 93,957,954	\$ 4,286,911	\$ 66,441,079	\$ (67,738,641)	\$ 96,947,303
Liabilities and Net Assets					
Accounts payable and accrued expenses	\$ 569,299	\$ 17,392	\$ 7,517,120	\$ -	\$ 8,103,811
Day with the Commissioner	74,524	-	-	-	74,524
Deferred revenue	2,065,120	281,086	830,447	-	3,176,653
Deferred rent	1,949,352	-	-	-	1,949,352
Funds held for others	9,843,259	23,980	-	-	9,867,239
Deferred compensation	453,903	-	-	-	453,903
Due to affiliates	8,374,890	1,270,239	6,698,783	(16,343,912)	-
Total liabilities	23,330,347	1,592,697	15,046,350	(16,343,912)	23,625,482
Net assets					
Unrestricted					
Undesignated	27,103,667	-	23,870,789	(23,870,789)	27,103,667
Designated for future programs	-	2,150,909	-	-	2,150,909
Designated for reserves and development	27,523,940	-	27,523,940	(27,523,940)	27,523,940
Total unrestricted net assets	54,627,607	2,150,909	51,394,729	(51,394,729)	56,778,516
Temporarily restricted	16,000,000	532,167	-	-	16,532,167
Permanently restricted	-	11,138	-	-	11,138
Total net assets	70,627,607	2,694,214	51,394,729	(51,394,729)	73,321,821
Total liabilities and net assets	\$ 93,957,954	\$ 4,286,911	\$ 66,441,079	\$ (67,738,641)	\$ 96,947,303

Conference of State Bank Supervisors, Inc. and Affiliates

Consolidating Statement of Activities

Year Ended December 31, 2012	CSBS	Foundation	SRR	Eliminations	Total
Unrestricted activities					
Revenue					
NMLS processing fees	\$ -	\$ -	\$ 33,880,855	\$ -	\$ 33,880,855
NMLS professional services	-	-	24,790,614	-	24,790,614
Dues	5,024,940	-	-	-	5,024,940
Registration fees	37,498	1,268,085	111,120	-	1,416,703
NMLS state development contributions	-	-	270,000	-	270,000
Accreditation of banking & mortgage departments	-	219,000	-	-	219,000
Other income	8,056	7,330	-	-	15,386
Investment income	200,270	157,446	-	-	357,716
Grants to affiliates	-	511,000	-	(511,000)	-
Income on Equity Investment in Subsidiary	11,368,347	-	-	(11,368,347)	-
Interest on SRR line of credit	80,986	-	-	(80,986)	-
Net assets released from restriction	-	830,693	-	-	830,693
Total unrestricted revenue	16,720,097	2,993,554	59,052,589	(11,960,333)	66,805,907
Expense					
Program expenses:					
NMLS professional services	-	-	16,850,410	-	16,850,410
NMLS system operations	27,916	9,276	15,819,209	-	15,856,401
NMLS - call center	-	-	5,344,996	-	5,344,996
Staff, board & member travel/meetings	114,814	918,264	472,690	-	1,505,768
Grants to affiliates	361,000	-	150,000	(511,000)	-
Professional services - legal, audit & other	178,425	381,144	880,747	-	1,440,316
Total program services	682,155	1,308,684	39,518,052	(511,000)	40,997,891
Staffing & administrative expenses:					
Salaries and benefits	2,685,961	1,133,737	5,604,202	-	9,423,900
Technology & general office	361,389	341,722	1,444,844	(80,986)	2,066,969
Rent and occupancy	212,969	57,774	853,111	-	1,123,854
Total supporting services	3,260,319	1,533,233	7,902,157	(80,986)	12,614,723
Total expense	3,942,474	2,841,917	47,420,209	(591,986)	53,612,614
Net change before other (expense) income	12,777,623	151,637	11,632,380	(11,368,347)	13,193,293
Final pension settlement expense	(82,982)	(30,175)	(264,033)	-	(377,190)
Change in unrestricted net assets	12,694,641	121,462	11,368,347	(11,368,347)	12,816,103
Temporarily restricted activities					
Contributions and interest income	16,000,000	-	-	-	16,000,000
Net assets released from restriction	-	(830,693)	-	-	(830,693)
Change in temporarily restricted net assets	16,000,000	(830,693)	-	-	15,169,307
Change in net assets	28,694,641	(709,231)	11,368,347	(11,368,347)	27,985,410
Net assets, beginning of year	41,932,966	3,403,445	40,026,382	(40,026,382)	45,336,411
Net assets, end of year	\$ 70,627,607	\$ 2,694,214	\$ 51,394,729	\$ (51,394,729)	\$ 73,321,821