

CU*ANSWERS, INC.

FINANCIAL STATEMENTS
September 30, 2018 and 2017

CU*ANSWERS, INC.
Grand Rapids, Michigan

FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
CU*Answers, Inc.
Grand Rapids, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of CU*Answers, Inc., which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CU*Answers, Inc. as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of revenues, costs of goods sold, and selling, general and administrative expenses are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Crowe LLP

Crowe LLP

Grand Rapids, Michigan
November 14, 2018

CU*ANSWERS, INC.
BALANCE SHEETS
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 20,189,744	\$ 14,357,075
Certificates of deposit	754,152	1,000,970
Accounts receivable (Note 13)	1,490,728	991,591
Accounts receivable - related parties	136,692	115,915
Income tax receivable (Note 3)	398,500	827,300
Note receivable (Note 4)	4,710	8,026
Equipment and supplies inventory	303,130	98,271
Prepaid expenses		
Maintenance contracts	1,083,591	979,104
Insurance	103,252	201,859
Other	<u>654,491</u>	<u>650,600</u>
Total current assets	<u>25,118,990</u>	<u>19,230,711</u>
Property, equipment and software		
Equipment	5,336,122	5,499,510
Software	15,161,801	13,961,414
Furniture and fixtures	1,490,246	1,497,103
Leasehold improvements	4,472,602	4,361,808
Vehicles	107,658	109,542
Software in process	<u>900,378</u>	<u>1,157,890</u>
	<u>27,468,807</u>	<u>26,587,267</u>
Less accumulated depreciation and amortization	<u>18,441,122</u>	<u>16,500,159</u>
	9,027,685	10,087,108
Other assets		
Corporate owned life insurance (Note 12)	2,083,656	1,847,874
Investment in Affiliates (Note 5)	2,239,057	2,306,549
Note receivable (Note 4)	<u>520,000</u>	<u>624,709</u>
	<u>4,842,713</u>	<u>4,779,132</u>
	<u>\$ 38,989,388</u>	<u>\$ 34,096,951</u>

(Continued)

CU*ANSWERS, INC.
BALANCE SHEETS
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable - trade	\$ 560,802	\$ 495,191
Accounts payable - related parties	81,913	89,683
Patronage and dividend accrual	6,775,868	5,138,456
Current portion of capital lease obligation (Note 8)	445,119	421,169
Profit sharing payable (Note 10)	803,686	720,287
Current portion of deferred compensation (Note 12)	200,000	200,000
Other liabilities	<u>1,283,815</u>	<u>982,374</u>
Total current liabilities	10,151,203	8,047,160
Long-term liabilities		
Long-term debt (Note 7)	5,700,000	5,820,000
Capital leases (Note 8)	195,714	529,602
Deferred rent	596,105	641,390
Deferred compensation (Note 12)	2,235,058	2,162,492
Deferred income taxes (Note 3)	<u>684,000</u>	<u>1,361,000</u>
	9,410,877	10,514,484
Stockholders' equity		
Common stock - par value \$10 per share; 40,000 shares authorized; shares issued and outstanding: 27,000 and 25,000 at September 30, 2018 and 2017, respectively (Note 9)	270,000	250,000
Additional paid-in capital	15,280,011	11,696,353
Retained earnings	<u>3,877,297</u>	<u>3,588,954</u>
	<u>19,427,308</u>	<u>15,535,307</u>
	<u>\$ 38,989,388</u>	<u>\$ 34,096,951</u>

See accompanying notes to financial statements.

CU*ANSWERS, INC.
 STATEMENTS OF INCOME
 Years ended September 30, 2018 and 2017

	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenues (Note 13)	\$ 55,257,238	100.00 %	\$ 54,026,226	100.00 %
Cost of goods sold	<u>14,495,345</u>	<u>26.23</u>	<u>14,299,610</u>	<u>26.47</u>
Gross margin	40,761,893	73.77	39,726,616	73.53
Selling, general and administrative expenses	<u>33,654,100</u>	<u>60.90</u>	<u>32,833,863</u>	<u>60.77</u>
Income before other income (expense), patronage dividends and income taxes	7,107,793	12.87	6,892,753	12.76
Other income (expense)				
Interest income	230,650	0.42	111,273	0.21
Loss on disposal of assets	(38,893)	(0.07)	(31,851)	(0.06)
Interest expense	(318,891)	(0.58)	(261,042)	(0.48)
Loss from Affiliates	(67,492)	(0.12)	(54,544)	(0.10)
Other expense	<u>(88,557)</u>	<u>(0.16)</u>	<u>-</u>	<u>-</u>
	<u>(283,183)</u>	<u>(0.51)</u>	<u>(236,164)</u>	<u>(0.43)</u>
Income before patronage dividends and income taxes	6,824,610	12.36	6,656,589	12.33
Patronage dividends	<u>6,000,000</u>	<u>10.86</u>	<u>4,500,000</u>	<u>8.33</u>
Income before provision (benefit) for income taxes	824,610	1.50	2,156,589	4.00
Provision (benefit) for income taxes (Note 3)	<u>(239,601)</u>	<u>(0.43)</u>	<u>852,597</u>	<u>1.58</u>
Net income	<u>\$ 1,064,211</u>	<u>1.93 %</u>	<u>\$ 1,303,992</u>	<u>2.42 %</u>

See accompanying notes to financial statements.

CU*ANSWERS, INC.
 STATEMENTS OF STOCKHOLDERS' EQUITY
 Years ended September 30, 2018 and 2017

	<u>Common Stock Class A</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, October 1, 2016	\$ 256,000	\$ 11,439,964	\$ 2,923,418	\$ 14,619,382
Redemption of 1,400 shares of Class A common stock	(14,000)	(775,611)	-	(789,611)
Issuance of 800 shares of Class A common stock	8,000	1,032,000	-	1,040,000
Dividends declared	-	-	(638,456)	(638,456)
Net income	<u>-</u>	<u>-</u>	<u>1,303,992</u>	<u>1,303,992</u>
Balance, September 30, 2017	250,000	11,696,353	3,588,954	15,535,307
Redemption of 1,000 shares of Class A common stock	(10,000)	(601,342)	-	(611,342)
Issuance of 3,000 shares of Class A common stock	30,000	4,185,000	-	4,215,000
Dividends declared	-	-	(775,868)	(775,868)
Net income	<u>-</u>	<u>-</u>	<u>1,064,211</u>	<u>1,064,211</u>
Balance, September 30, 2018	<u>\$ 270,000</u>	<u>\$ 15,280,011</u>	<u>\$ 3,877,297</u>	<u>\$ 19,427,308</u>

See accompanying notes to financial statements.

CU*ANSWERS, INC.
STATEMENTS OF CASH FLOWS
Years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Net income	\$ 1,064,211	\$ 1,303,992
Adjustments to reconcile net income to net cash provided by operating activities		
Investments in affiliates	67,492	54,542
Depreciation and amortization	2,879,158	2,888,199
Provision for note receivable	100,000	-
Loss on disposal of assets	38,893	31,851
Deferred income taxes	(677,000)	(80,453)
Cash value of life insurance	(235,782)	(225,797)
Change in assets and liabilities		
Accounts receivable	(519,914)	(42,114)
Income taxes	428,800	(207,500)
Prepaid expenses	(9,771)	(98,213)
Equipment and supplies inventory	(204,859)	(16,506)
Accounts payable	57,841	(145,276)
Other liabilities	<u>1,912,121</u>	<u>1,059,387</u>
Net cash from operating activities	4,901,190	4,522,112
 Cash flows used in investing activities		
Proceeds from sale of equipment	-	1,050
Certificates of deposit	246,818	(161)
Purchases of property, equipment and software	(1,743,424)	(1,580,309)
Cash received on note receivable	<u>8,025</u>	<u>7,964</u>
Net cash used in investing activities	(1,488,581)	(1,571,456)
 Cash flows from financing activities		
Payments on long-term debt	(120,000)	(660,000)
Borrowings of long-term debt	-	1,510,000
Payments on capital lease obligations	(425,142)	(454,055)
Dividends paid	(638,456)	(597,198)
Proceeds from issuance of stock	4,215,000	1,040,000
Payments on redemption of stock	<u>(611,342)</u>	<u>(789,611)</u>
Net cash from financing activities	<u>2,420,060</u>	<u>49,136</u>
 Net change in cash and cash equivalents	5,832,669	2,999,792
 Cash and cash equivalents at beginning of year	<u>14,357,075</u>	<u>11,357,283</u>
 Cash and cash equivalents at end of year	<u>\$ 20,189,744</u>	<u>\$ 14,357,075</u>
 Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	\$ 318,891	\$ 261,042
Income taxes	8,600	1,140,550
 Supplemental disclosures of noncash investing and financing activities		
Financing activity - dividends declared	\$ 775,868	\$ 638,456
Capital lease obligations entered into during the year	115,204	145,701

See accompanying notes to financial statements.

CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1 - NATURE OF BUSINESS

Nature of Business: CU*Answers, Inc. (CU*Answers or "the Corporation") provides automated processing services for credit unions throughout the United States. CU*Answers, Inc. also markets a software product and provides support to customers throughout the country with a concentration in Michigan. Revenue is recognized based on the number of members for each of its credit union customers as services are performed. Additionally, CU*Answers, Inc. receives revenue from sales of certain software and computer hardware products as they are sold. CU*Answers, Inc. is organized as a credit union service organization (CUSO) and a co-operative.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Statement of Cash Flows: For the purpose of the statement of cash flows, cash and cash equivalents includes demand deposit accounts, savings accounts, money market accounts and instruments purchased with a maturity of three months or less. The Corporation frequently has deposits in excess of \$250,000 at various financial institutions, some of which are also shareholders.

Certificates of Deposit: Certificates of deposit consist of bank time deposits with original maturity dates greater than 90 days and with remaining maturity dates of less than 365 days. These certificates of deposit have a fixed rate of interest which is paid upon maturity. They may not be redeemed before the maturity date without a penalty and are not transferable.

Accounts Receivable: The Corporation sells to customers using credit terms customary in their industry. Interest is not normally charged on receivables. Management establishes a reserve for losses on their accounts based on historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. These financial statements contain no allowance for losses since management expects that all accounts receivable are fully collectible at September 30, 2018 and 2017.

Equipment and Supplies Inventory: Inventories, which consist primarily of equipment and supplies for sale, are stated at the lower of cost or net realizable value, with cost determined by using the specific identification method.

Advertising Costs: The Corporation expenses advertising costs as incurred. Advertising costs for the years ended September 30, 2018 and 2017 were \$592,276 and \$797,841, respectively.

Property and Equipment: Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided by use of straight-line and accelerated methods over the estimated useful lives of the assets. Leasehold improvements are depreciated over the estimated life or lease term, whichever is less. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized.

Computer Software: The Corporation accounts for development costs related to software products to be sold, leased, or otherwise marketed as follows: software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. These capitalized costs are subject to an ongoing assessment of recoverability based on anticipated future revenues and changes in hardware and software technologies. Costs that are capitalized include direct labor and consulting fees.

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CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amortization of capitalized software development costs begins when the product is available for general release to customers. Amortization is computed as the greater of (1) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues for the product or (2) the straight-line method over the estimated economic life of the product.

Unamortized costs were approximately \$4,433,000 and \$4,466,000 at September 30, 2018 and 2017, respectively. Amortization expense was approximately \$1,367,000 and \$1,228,000 for the years ended September 30, 2018 and 2017, respectively.

Long-Lived Assets: The Corporation reviews property, equipment and computer software for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an impairment loss has occurred based on expected future undiscounted cash flows from operations, a current charge to income is recognized, and the carrying amount of the long-lived asset is adjusted.

Corporate Owned Life Insurance: The Corporation owns life insurance policies on individuals. Corporate owned life insurance is reported at its cash surrender value, less outstanding policy loans, or the amount that can be realized.

Lease Inducements and Escalating Base Rent: Lease inducements consisting of improvements to leased property provided by or reimbursed by the landlord, are deferred and accounted for as a reduction of rent expense on a straight-line basis over the term of the related lease. The Corporation recognizes rent expense on a straight-line basis over the term of related lease for leases that include escalating minimum base rents and records a deferred rent liability for the difference between straight-line expense and rent payments. The liabilities for deferred lease inducements and deferred rent are included in other liabilities.

Customer Deposits: Customer deposits represent advance payments received from customers for software purchases, installation and support services. Revenue related to these contracts is recognized upon successful installation. The Corporation has included deferred revenue of approximately \$218,000 and \$335,000 at September 30, 2018 and 2017, respectively, in other liabilities on the balance sheet.

Patronage Dividends: Patronage dividends reflect discretionary distributions to shareholders, as approved by the Board of Directors. These distributions are limited to a portion of the net earnings of the Corporation from business done with their shareholders, and are allocated to individual shareholders based upon the volume of business done with the Corporation.

Income Taxes: The Corporation records income tax expense based on the amount of taxes due on their tax returns plus deferred taxes computed based on the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Uncertain tax positions are recognized and measured under provisions of FASB ASC 740. These provisions require the Corporation to recognize a tax benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

The Corporation recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. There were no amounts expensed or accrued as of and for the years ended September 30, 2018 and 2017 for tax related interest and penalties.

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CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Corporation is no longer subject to examination for federal tax years before 2014 and for state income taxes before 2013. The Corporation does not expect that total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These estimates and assumptions may change in the near future resulting in different actual results. Estimates associated with allowance for doubtful accounts, deferred income taxes, lives of fixed assets and intangible assets, and the value of the investment in affiliates are particularly susceptible to material change in the near term.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2018 to determine the need for any adjustments to and/or disclosures within these financial statements for the year ended September 30, 2018. Management has performed their analysis through November 14, 2018, the date the financial statements were available for issuance and has determined that there are no subsequent events to disclose.

NOTE 3 - INCOME TAXES

The provision (benefit) for income taxes consists of the following:

	<u>2018</u>	<u>2017</u>
Current state tax expense	\$ 21,917	\$ 81,350
Current federal tax expense	415,482	851,700
Benefit of Tax Reform	(391,200)	-
Deferred tax benefit	<u>(285,800)</u>	<u>(80,453)</u>
	<u>\$ (239,601)</u>	<u>\$ 852,597</u>

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act decreases the Corporation's federal tax rate from 34% to 21% effective January 1, 2018. As a result, the Corporation is required to re-measure the deferred tax assets and liabilities using the enacted rate at which the Corporation expects them to be recovered or settled. The effect of this re-measurement is recorded to provision (benefit) for income taxes in the year the tax law is enacted. For the year ended September 30, 2018, the re-measurement of the net deferred tax liability resulted in an additional income tax benefit of approximately \$391,200.

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CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 3 - INCOME TAXES (Continued)

Deferred tax assets and liabilities are as follows:

	<u>2018</u>	<u>2017</u>
Deferred tax assets	\$ 1,361,900	\$ 2,026,950
Deferred tax liabilities	(1,705,900)	(2,819,150)
Valuation allowance	<u>(340,000)</u>	<u>(568,800)</u>
	<u>\$ (684,000)</u>	<u>\$ (1,361,000)</u>

Income tax expense differs from expense at statutory rates due to the effect of graduated tax rates and nondeductible expenses. Significant temporary differences between financial statements and tax returns include investments, intangible assets, accumulated depreciation, accumulated amortization, prepaid expenses, deferred revenue, and deferred compensation.

The valuation allowance reduces deferred tax assets to the amount expected to be realized, and relates to the Corporation's investment in eDOC Innovations, Inc. The Corporation has recorded a deferred tax asset and related valuation allowance for the basis difference between financial statements and tax returns for the investment in eDOC Innovations, Inc., as it is unlikely that the asset will be realized.

NOTE 4 - NOTE RECEIVABLE

Note receivable consists of the following:

	<u>2018</u>	<u>2017</u>
Note receivable from a company; dated December 18, 2013, including interest at 2% due quarterly. Originally maturing on December 31, 2015, the note receivable was extended during 2016 and matures on December 31, 2019.	\$ 20,000	\$ 20,000
Note receivable from a company; dated April 12, 2015, including interest of 6% due quarterly per annum. Converting to a three year note on April 12, 2020, including interest of 6%, with principal and interest due monthly, matures on April 12, 2023.	100,000	100,000
Note receivable from a company; dated April 1, 2016, including interest of .75% per annum. Note is payable in 36 monthly principal and interest installments of \$674. The note matures on April 1, 2019.	4,710	12,735

(Continued)

CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 - NOTE RECEIVABLE (Continued)

	<u>2018</u>	<u>2017</u>
Convertible note receivable from a company; dated July 7, 2016, with interest of 6% due monthly, maturing on July 6, 2018. The note receivable is shown net of a reserve of \$100,000 and \$0 at September 30, 2018 and 2017, respectively. The Company is currently negotiating revised terms with the note holder, which are not considered to have a material impact to the financial statements.	\$ 400,000	\$ 500,000
Less current portion	<u>(4,710)</u>	<u>(8,026)</u>
Note receivable long-term portion	<u>\$ 520,000</u>	<u>\$ 624,709</u>

Maturities of note receivable are as follows:

2019	\$ 4,710
2020	436,667
2021	33,333
2022	33,333
2023	<u>16,667</u>
	<u>\$ 524,710</u>

NOTE 5 - INVESTMENT IN AFFILIATES

CU*Answers, Inc. is a minority shareholder in eDOC Innovations, Inc. with a 48.612% ownership interest as of September 30, 2018 and 2017. The investment is accounted for under the equity method.

Condensed audited financial information of eDOC Innovations, Inc. as of and for the years ended September 30, 2018 and 2017 is presented as follows:

	<u>Year ended September 30, 2018</u>	<u>Year ended September 30, 2017</u>
Total assets	<u>\$ 5,735,852</u>	<u>\$ 5,636,375</u>
Total liabilities	\$ 1,443,820	\$ 1,459,963
Members'/stockholders' equity	<u>4,292,032</u>	<u>4,176,412</u>
	<u>\$ 5,735,852</u>	<u>\$ 5,636,375</u>
Net sales	\$ 4,797,743	\$ 4,436,148
Expenses	<u>4,682,123</u>	<u>4,468,092</u>
Net income (loss)	<u>\$ 115,620</u>	<u>\$ (31,944)</u>

(Continued)

CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 - INVESTMENT IN AFFILIATES (Continued)

CU*Answers, Inc. purchased 20% ownership in Site-Four, LLC in July 2012. The investment of \$25,000 is accounted for under the equity method. During the years ended September 30, 2018 and 2017, no impairment was recorded.

CU*Answers, Inc. purchased 15% investment in Chatter Yak in May 2014. Chatter Yak provides marketing services to CU*Answers customers. The initial investment of \$100,000 is accounted for under the cost method and was written down to \$50,000 as of September 30, 2014 to the expected amount to be realized. During the year ended September 30, 2017, the investment was determined to be fully impaired and as a result, the investment was written down to \$0.

CU*Answers, Inc. purchased 4% investment in Payveris in September 2015. Payveris provides licensing services to CU*Answers customers. The initial investment of \$260,438 is accounted for under the cost method. During the year ended September 30, 2018, the Company determined the carrying value of the investment exceeded the fair value and recorded impairment of \$130,219, which is included in loss from affiliates on the Statement of Income. No impairment was recorded for the year ended September 30, 2017.

NOTE 6 - LINE OF CREDIT

CU*Answers, Inc. has available a revolving line of credit with Alloya Corporate Federal Credit Union (Alloya), dated December 27, 2000, with no set maturity date. The agreement provides for maximum borrowings of \$100,000 with interest payable monthly based upon Alloya's standard rate. The available line of credit is secured by specific assets of CU*Answers, Inc. There were no borrowings on the line at September 30, 2018 and 2017.

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
2017 debenture offerings; 94 - \$60,000 debentures, 1 - \$50,000 debenture, and 1 - \$10,000 debenture at September 30, 2018; 96 - \$60,000 debentures, 1 - \$50,000 debenture, and 1 - \$10,000 debenture at September 30, 2017 payable in full on June 30, 2022; interest payable quarterly at prime plus 0.5%. Interest rates are adjusted annually and are limited to a 1% adjustment with a 7.0% ceiling and 3.0% floor.	\$ 5,700,000	\$ 5,820,000
Less current portion of long-term debt	<u>-</u>	<u>-</u>
	<u>\$ 5,700,000</u>	<u>\$ 5,820,000</u>

(Continued)

CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 - LEASE COMMITMENTS

The Corporation is obligated under various capital lease agreements for computer related equipment. Lease payments are generally due monthly and expire at various dates through September, 2020. Assets recorded under capital leases amount to the following:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 1,272,947	\$ 1,371,627
Accumulated depreciation	<u>(842,232)</u>	<u>(648,578)</u>
	<u>\$ 430,715</u>	<u>\$ 723,049</u>

The Corporation has entered into numerous noncancelable operating lease agreements for various facilities and equipment with lease terms expiring at various dates through the year 2027. Rent expense under these leases for the years ended September 30, 2018 and 2017 was \$823,759 and \$814,811, respectively.

Future minimum payments due under operating and capital leases with initial or remaining noncancelable lease terms in excess of one year are as follows:

	<u>Operating Leases</u>	<u>Capital Leases</u>
2019	\$ 834,903	\$ 462,068
2020	835,958	197,296
2021	819,850	-
2022	818,259	-
2023	850,186	-
Thereafter	<u>3,116,216</u>	<u>-</u>
Total minimum lease payments	<u>\$ 7,275,372</u>	659,364
Less amounts representing interest		<u>(18,531)</u>
Current portion of capital lease obligations		<u>640,833</u>
Long term portion of capital lease obligations		<u>\$ 195,714</u>

NOTE 9 - CAPITAL STOCK

CU*Answers, Inc. can issue Class A and Class B stock. Only Class A shares carry voting rights and only holders of Class A shares can purchase Class B shares. All shares contain transfer restrictions.

CU*Answers, Inc. is obligated to pay dividends on both classes of stock. The rate for Class A is between 4% and 8% of book value and the rate for Class B is between 4% and 8% of the par value of the shares. The rate paid is at the discretion of the board of directors.

CU*Answers, Inc. is obligated to purchase shares of stock of withdrawing stockholders. Payment for Class A and Class B shares is required within 30 days. The purchase price for both classes of stock is the book value of the stock as of the end of the prior fiscal year. The Company does not have any purchase obligations as of September 30, 2018.

(Continued)

NOTE 10 - RETIREMENT PLANS

CU*Answers, Inc. maintains a 401(k) plan in which substantially all of its employees may participate. The plan includes a provision for CU*Answers, Inc. to match a percentage of the employees' contributions at a rate prescribed in the plan agreement. CU*Answers, Inc.'s contributions to the plan resulted in expense of \$809,796 and \$729,843 for the years ended September 30, 2018 and 2017, respectively.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

During 2018, the Company established a self-funded group health insurance plan. The Company has acquired stop-loss insurance for the group health plan which limits its liability to \$75,000 per individual and \$1,000,000 in aggregate, on an annual basis. At September 30, 2018, the Company has accrued \$173,716 in other liabilities for claims that have been incurred but not reported related to the group health insurance plan.

NOTE 12 - DEFERRED COMPENSATION AGREEMENTS

CU*Answers, Inc. maintains supplemental retirement plans for selected officers. CU*Answers, Inc. has purchased insurance contracts on the lives of certain participants in the supplemental retirement plans and has named CU*Answers, Inc. as the beneficiary. CU*Answers, Inc. is recording an expense equal to the projected present value of the payments due at retirement based on the projected remaining years of service. The obligation under the plans was \$2,435,058 and \$2,362,492 at September 30, 2018 and 2017, respectively. During 2017, an officer covered by the plan retired. The Company expects to pay \$200,000 a year through September 30, 2020 to the retired officer. As such, \$200,000 of the total benefit obligation has been classified as current at September 30, 2018 and 2017. The expense attributable to the plans, included in salaries and employee benefits, was \$272,566 and \$328,948 in 2018 and 2017, respectively. The cash surrender value of the Corporate owned life insurance was \$2,083,656 and \$1,847,874 at September 30, 2018 and 2017, respectively.

NOTE 13 - RELATED PARTY TRANSACTIONS

CU*Answers, Inc. provides services to all of its stockholders. Revenues from transactions with stockholders constituted 72% and 70% of total revenues during fiscal 2018 and 2017, respectively. At September 30, 2018 and 2017, 46% and 77%, respectively, of the CU*Answers, Inc.'s accounts receivable were from its stockholders. Cash and cash equivalents held at stockholder credit unions totaled approximately \$3,315,943 and \$3,773,921 at September 30, 2018 and 2017, respectively.

CU*Answers, Inc. is a minority shareholder of Xtend, Inc. (Xtend). Xtend provides managerial, operational and technical planning and consulting, outsourcing of technical and human resources, and coordination of marketing efforts for financial services. CU*Answers, Inc. provides operational support services including the use of office space, computer equipment and various human resources. Revenue received by CU*Answers, Inc. for these operational support services totaled \$131,112 and \$183,153 for the years ended September 30, 2018 and 2017, respectively. The investment in Xtend is accounted for using the cost method.

(Continued)

CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 13 - RELATED PARTY TRANSACTIONS (Continued)

CU*Answers, Inc. is a minority shareholder of eDOC Innovations, Inc. (eDOC). eDOC provides software and specialized consulting services, specifically relating to document management systems, to credit unions and savings and loan institutions throughout the United States. CU*Answers, Inc. provided operational support services including the use of office space, computer equipment and various human resources. Revenue received by CU*Answers, Inc. for these operational support services totaled \$144,000 for the years ended September 30, 2018 and 2017. The investment in eDOC is accounted for using the equity method, see Note 5 for further discussion of this investment.

CU*Answers, Inc. is a minority shareholder of CU*Northwest, Inc. (CU*NW). CU*Answers, Inc. provides operational support services including accounting management, and human resources. Revenue received by CU*Answers, Inc. for these operational support services totaled \$86,500 and \$82,250 for the years ended September 30, 2018 and 2017, respectively. The investment in CU*NW is accounted for using the cost method.

NOTE 14 - FAIR VALUE

Statement 157 (FASB ASC 820 under new codification) establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of money market accounts, included in cash and cash equivalents, are determined based upon their quoted redemption prices and recent transaction prices of \$1.00 per share (Level 2 inputs), with no discounts for credit quality or liquidity restriction. Money market accounts are measured at fair value on a recurring basis and total \$18,637,353 and \$13,978,119 at September 30, 2018 and 2017, respectively.

SUPPLEMENTARY INFORMATION

CU*ANSWERS, INC.
SCHEDULES OF REVENUES, COST OF GOODS SOLD, AND SELLING,
GENERAL AND ADMINISTRATIVE EXPENSES
Years ended September 30, 2018 and 2017

	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenues				
On-line	\$ 41,142,640	74.46 %	\$ 40,812,632	75.54 %
Self processing	2,529,404	4.58	2,714,726	5.03
CNS	7,905,029	14.30	7,396,080	13.69
External	<u>3,680,165</u>	<u>6.66</u>	<u>3,102,788</u>	<u>5.74</u>
	55,257,238	100.00	54,026,226	100.00
Cost of goods sold				
On-line	9,940,685	17.99	10,149,439	18.79
Self processing	767,092	1.39	783,400	1.45
CNS	3,260,517	5.90	2,874,892	5.32
External	<u>527,051</u>	<u>0.95</u>	<u>491,879</u>	<u>0.91</u>
	<u>14,495,345</u>	<u>26.23</u>	<u>14,299,610</u>	<u>26.47</u>
Gross margin	<u>\$ 40,761,893</u>	<u>73.77 %</u>	<u>\$ 39,726,616</u>	<u>73.53 %</u>
Selling, general and administrative expenses				
Salaries and wages	\$ 15,643,518	28.32 %	\$ 15,138,047	28.03 %
Bonuses and commissions	3,285,481	5.95	3,172,867	5.87
Employee benefits	5,339,771	9.66	5,130,559	9.50
Office and computer supplies	362,591	0.66	406,461	0.75
Utilities	494,282	0.89	477,773	0.88
Property taxes	78,000	0.14	90,000	0.17
Repairs and maintenance	1,806,135	3.27	1,665,078	3.08
Rent	823,759	1.49	814,811	1.51
Insurance	96,136	0.17	96,276	0.18
Depreciation and amortization	2,879,158	5.22	2,888,199	5.35
Professional services	416,988	0.75	245,469	0.45
Purchased services	530,266	0.96	558,876	1.03
Disaster recovery fees	12,668	0.02	11,365	0.02
Travel and entertainment	968,995	1.75	1,053,359	1.95
Advertising and promotion	592,276	1.07	797,841	1.48
Postage and freight	56,240	0.10	46,202	0.09
Donations	3,200	-	2,850	-
Miscellaneous	<u>264,636</u>	<u>0.48</u>	<u>237,830</u>	<u>0.43</u>
	<u>\$ 33,654,100</u>	<u>60.90 %</u>	<u>\$ 32,833,863</u>	<u>60.77 %</u>