

**CU\*ANSWERS, INC.**

**FINANCIAL STATEMENTS**

September 30, 2020 and 2019

CU\*ANSWERS, INC.  
Grand Rapids, Michigan

FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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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, 2020 and 2019, 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.

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### ***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, 2020 and 2019, 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.

A handwritten signature in black ink that reads "Crowe LLP". The script is cursive and fluid.

Crowe LLP

Grand Rapids, Michigan  
November 18, 2020

CU\*ANSWERS, INC.  
BALANCE SHEETS  
September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 26,617,693	\$ 23,144,897
Certificates of deposit	615,709	510,205
Accounts receivable (Note 13)	858,014	1,092,915
Accounts receivable - related parties	82,601	60,067
Income tax receivable (Note 3)	486,400	358,100
Note receivable (Note 4)	-	31,867
Equipment and supplies inventory	89,789	410,193
Prepaid expenses		
Maintenance contracts	1,456,991	1,663,225
Insurance	51,140	107,572
Other	<u>598,052</u>	<u>657,232</u>
Total current assets	30,856,389	28,036,273
Property, equipment and software		
Equipment	6,189,943	6,545,494
Software	16,458,797	15,418,341
Furniture and fixtures	1,382,619	1,440,652
Leasehold improvements	4,394,544	4,620,797
Vehicles	104,854	107,998
Software in process	<u>1,699,962</u>	<u>1,129,832</u>
	30,230,719	29,263,114
Less accumulated depreciation and amortization	<u>20,869,054</u>	<u>19,664,236</u>
	9,361,665	9,598,878
Other assets		
Corporate owned life insurance (Note 12)	2,601,795	2,335,224
Investment in Affiliates (Note 5)	2,791,253	2,485,632
Note receivable (Note 4)	<u>210,584</u>	<u>83,333</u>
	<u>5,603,632</u>	<u>4,904,189</u>
	<u>\$ 45,821,686</u>	<u>\$ 42,539,340</u>

(Continued)

CU\*ANSWERS, INC.  
BALANCE SHEETS  
September 30, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable - trade	\$ 270,508	\$ 323,087
Accounts payable - related parties	78,770	79,619
Patronage and dividend accrual	7,928,544	6,844,071
Current portion of capital lease obligation (Note 8)	761,129	728,534
Profit sharing payable (Note 10)	977,908	858,016
Current portion of deferred compensation (Note 12)	200,000	200,000
Other liabilities	<u>2,935,519</u>	<u>2,459,736</u>
Total current liabilities	13,152,378	11,493,063
Long-term liabilities		
Long-term debt (Note 7)	5,400,000	5,520,000
Capital leases (Note 8)	981,504	1,297,239
Deferred rent	501,059	543,084
Deferred compensation (Note 12)	2,388,995	2,310,517
Deferred income taxes (Note 3)	<u>858,800</u>	<u>756,700</u>
	10,130,358	10,427,540
Stockholders' equity		
Common stock - par value \$10 per share; 40,000 shares authorized; shares issued and outstanding: 27,400 and 27,200 at September 30, 2020 and 2019, respectively (Note 9)	274,000	272,000
Additional paid-in capital	17,524,643	16,126,293
Retained earnings	<u>4,740,307</u>	<u>4,220,444</u>
	<u>22,538,950</u>	<u>20,618,737</u>
	<u>\$ 45,821,686</u>	<u>\$ 42,539,340</u>

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See accompanying notes to financial statements.

CU\*ANSWERS, INC.  
STATEMENTS OF INCOME  
Years ended September 30, 2020 and 2019

	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Revenues</b> (Note 13)	\$ 62,437,893	100.00 %	\$ 60,295,534	100.00 %
Cost of goods sold	<u>16,564,460</u>	<u>26.53</u>	<u>16,438,688</u>	<u>27.26</u>
<b>Gross margin</b>	45,873,433	73.47	43,856,846	72.74
Selling, general and administrative expenses	<u>37,099,908</u>	<u>59.42</u>	<u>36,127,333</u>	<u>59.92</u>
<b>Income before other income (expense), patronage dividends and income taxes</b>	8,773,525	14.05	7,729,513	12.82
Other income (expense)				
Interest income	156,371	0.25	291,419	0.48
Gain (loss) on disposal of assets	6,250	0.01	(2,241)	-
Interest expense	(371,043)	(0.59)	(334,948)	(0.56)
Gain from Affiliates	305,621	0.49	246,575	0.41
Other expense	<u>-</u>	<u>-</u>	<u>(400,000)</u>	<u>(0.66)</u>
	<u>97,199</u>	<u>0.16</u>	<u>(199,195)</u>	<u>(0.33)</u>
<b>Income before patronage dividends and income taxes</b>	8,870,724	14.21	7,530,318	12.49
Patronage dividends	<u>7,000,000</u>	<u>11.21</u>	<u>6,000,000</u>	<u>9.95</u>
<b>Income before provision for income taxes</b>	1,870,724	3.00	1,530,318	2.54
Provision for income taxes (Note 3)	<u>422,317</u>	<u>0.68</u>	<u>343,100</u>	<u>0.57</u>
<b>Net income</b>	<u>\$ 1,448,407</u>	<u>2.32 %</u>	<u>\$ 1,187,218</u>	<u>1.97 %</u>

See accompanying notes to financial statements.

CU\*ANSWERS, INC.  
STATEMENTS OF STOCKHOLDERS' EQUITY  
Years ended September 30, 2020 and 2019

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	<u>Common Stock Class A</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance, October 1, 2018</b>	\$ 270,000	\$ 15,280,011	\$ 3,877,297	\$ 19,427,308
Redemption of 600 shares of Class A common stock	(6,000)	(425,718)	-	(431,718)
Issuance of 800 shares of Class A common stock	8,000	1,272,000	-	1,280,000
Dividends declared	-	-	(844,071)	(844,071)
Net income	<u>-</u>	<u>-</u>	<u>1,187,218</u>	<u>1,187,218</u>
<b>Balance, September 30, 2019</b>	272,000	16,126,293	4,220,444	20,618,737
Redemption of 1,200 shares of Class A common stock	(12,000)	(897,650)	-	(909,650)
Issuance of 1,400 shares of Class A common stock	14,000	2,296,000	-	2,310,000
Dividends declared	-	-	(928,544)	(928,544)
Net income	<u>-</u>	<u>-</u>	<u>1,448,407</u>	<u>1,448,407</u>
<b>Balance, September 30, 2020</b>	<u>\$ 274,000</u>	<u>\$ 17,524,643</u>	<u>\$ 4,740,307</u>	<u>\$ 22,538,950</u>

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See accompanying notes to financial statements.



CU\*ANSWERS, INC.  
STATEMENTS OF CASH FLOWS  
Years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 1,448,407	\$ 1,187,218
Adjustments to reconcile net income to net cash provided by operating activities		
Investments in affiliates	(305,621)	(246,575)
Depreciation and amortization	3,068,307	2,884,780
Provision for note receivable	-	400,000
(Gain) loss on disposal of assets	(6,250)	2,241
Deferred income taxes	102,100	72,700
Cash value of life insurance	(266,571)	(251,568)
Change in assets and liabilities		
Accounts receivable	212,367	474,438
Income taxes	(128,300)	40,400
Prepaid expenses	340,246	(21,026)
Equipment and supplies inventory	320,404	(107,063)
Accounts payable	(53,428)	(240,009)
Other liabilities	<u>1,632,128</u>	<u>1,252,689</u>
Net cash from operating activities	6,363,789	5,448,225
<b>Cash flows used in investing activities</b>		
Proceeds from sale of equipment	6,250	3,800
Certificates of deposit	(105,504)	243,947
Purchases of property, equipment and software	(2,330,380)	(2,193,968)
Cash received (paid) on note receivable	<u>(95,384)</u>	<u>9,510</u>
Net cash used in investing activities	(2,525,018)	(1,936,711)
<b>Cash flows used in financing activities</b>		
Payments on long-term debt	(120,000)	(180,000)
Payments on capital lease obligations	(802,254)	(448,775)
Dividends paid	(844,071)	(775,868)
Proceeds from issuance of stock	2,310,000	1,280,000
Payments on redemption of stock	<u>(909,650)</u>	<u>(431,718)</u>
Net cash from financing activities	<u>(365,975)</u>	<u>(556,361)</u>
Net change in cash and cash equivalents	3,472,796	2,955,153
Cash and cash equivalents at beginning of year	<u>23,144,897</u>	<u>20,189,744</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 26,617,693</u>	<u>\$ 23,144,897</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for		
Interest	\$ 371,043	\$ 334,948
Income taxes	504,462	230,000
<b>Supplemental disclosures of noncash investing and financing activities</b>		
Financing activity - dividends declared	\$ 928,544	\$ 844,071
Capital lease obligations entered into during the year	519,114	1,833,715

See accompanying notes to financial statements.

CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**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, 2020 and 2019.

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, 2020 and 2019 were \$569,559 and \$764,923, 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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(Continued)

CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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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 \$3,402,000 and \$3,959,000 at September 30, 2020 and 2019, respectively. Amortization expense was approximately \$1,455,000 and \$1,457,000 for the years ended September 30, 2020 and 2019, 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 \$250,000 and \$269,000 at September 30, 2020 and 2019, 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.

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, 2020 and 2019 for tax related interest and penalties.

The Corporation is no longer subject to examination for federal tax years before 2016 and for state income taxes before 2015. The Corporation does not expect that total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months.

Accounting Pronouncements Issued But Not Yet Effective: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This pronouncement is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period and is to be applied using one of two retrospective application methods, with early application permitted for fiscal reporting periods beginning after December 15, 2016. In June 2020, the FASB issued ASU No. 2020-05, "Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities," which defers the effective date by one year for certain entities that had not yet issued their financial statements reflecting the adoption of Revenue as of the date the ASU was issued. The Branch has elected to defer the adoption of ASU No. 2014-09 to the fiscal reporting period beginning October 1, 2020. The Company is currently assessing the potential impact of Topic 606 on revenue recognition under existing contracts.

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, 2020 to determine the need for any adjustments to and/or disclosures within these financial statements for the year ended September 30, 2020. Management has performed their analysis through November 18, 2020, the date the financial statements were available for issuance and has determined that there are no subsequent events to disclose.

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CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**NOTE 3 - INCOME TAXES**

The provision for income taxes consists of the following:

	<u>2020</u>	<u>2019</u>
Current state tax expense	\$ 76,717	\$ 51,600
Current federal tax expense	243,500	218,800
Deferred tax expense	<u>102,100</u>	<u>72,700</u>
	<u>\$ 422,317</u>	<u>\$ 343,100</u>

Deferred tax assets and liabilities are as follows:

	<u>2020</u>	<u>2019</u>
Deferred tax assets	\$ 1,340,087	\$ 1,364,000
Deferred tax liabilities	(1,923,787)	(1,816,200)
Valuation allowance	<u>(275,100)</u>	<u>(304,500)</u>
	<u>\$ (858,800)</u>	<u>\$ (756,700)</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>2020</u>	<u>2019</u>
Note receivable from a company; dated December 18, 2013, including interest at 2% due quarterly, matures on December 31, 2022.	\$ 10,584	\$ 15,200
Note receivable from a company; dated April 13, 2015, including interest of 6% due quarterly per annum. Converting to a three year note on April 12, 2022, including interest of 6%, with principal and interest due monthly, matures on April 12, 2025.	200,000	100,000
Less current portion	<u>-</u>	<u>(31,867)</u>
Note receivable long-term portion	<u>\$ 210,584</u>	<u>\$ 83,333</u>

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CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**NOTE 4 - NOTE RECEIVABLE (Continued)**

Maturities of note receivable are as follows:

2021	\$ -
2022	30,890
2023	75,208
2024	68,610
2025	<u>35,876</u>
	<u>\$ 210,584</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, 2020 and 2019. The investment is accounted for under the equity method. At September 30, 2020 and 2019, the investment in eDOC Innovations, Inc. was \$2,596,645 and \$2,300,337, respectively.

Condensed audited financial information of eDOC Innovations, Inc. as of and for the years ended September 30, 2020 and 2019 is presented as follows:

	Year ended September 30, <u>2020</u>	Year ended September 30, <u>2019</u>
Total assets	<u>\$ 6,308,558</u>	<u>\$ 5,911,192</u>
Total liabilities	\$ 955,366	\$ 1,155,650
Members'/stockholders' equity	<u>5,353,192</u>	<u>4,755,542</u>
	<u>\$ 6,308,558</u>	<u>\$ 5,911,192</u>
Net sales	\$ 5,443,471	\$ 5,305,048
Expenses	<u>4,845,821</u>	<u>4,841,538</u>
Net income	<u>\$ 597,650</u>	<u>\$ 463,510</u>

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. At September 30, 2020 and 2019, the investment in Site-Four, LLC was \$59,389 and \$50,076, respectively. During the years ended September 30, 2020 and 2019, no impairment was recorded.

CU\*Answers, Inc. purchased a 4% investment in Payveris in September 2015. Payveris provides licensing services to CU\*Answers customers. The initial investment of \$260,438 less impairment of \$130,219 is accounted for under the cost method. At September 30, 2020 and 2019, the investment in Payveris was \$130,219. During the years ended September 30, 2020 and 2019, no impairment was recorded.

CU\*Answers, Inc. purchased 1.25% ownership in Xtend, Inc in November 2002. The investment of \$5,000 is accounted for under the cost method. At September 30, 2020 and 2019, the investment in Xtend, Inc. was \$5,000.

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CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**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, 2020 and 2019.

**NOTE 7 - LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2020</u>	<u>2019</u>
2017 debenture offerings; 89 - \$60,000 debentures, 1 - \$50,000 debenture, and 1 - \$10,000 debenture at September 30, 2020; 91 - \$60,000 debentures, 1 - \$50,000 debenture, and 1 - \$10,000 debenture at September 30, 2019 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.	\$ 5,400,000	\$ 5,520,000
Less current portion of long-term debt	<u>-</u>	<u>-</u>
	<u>\$ 5,400,000</u>	<u>\$ 5,520,000</u>

**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 January, 2024. Assets recorded under capital leases amount to the following:

	<u>2020</u>	<u>2019</u>
Equipment	\$ 1,768,761	\$ 2,452,170
Accumulated depreciation	<u>(558,617)</u>	<u>(1,129,455)</u>
	<u>\$ 1,210,144</u>	<u>\$ 1,322,715</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, 2020 and 2019 was \$845,041 and \$814,753, respectively.

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(Continued)



CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2020 and 2019

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**NOTE 8 - LEASE COMMITMENTS** (Continued)

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>
2021	\$ 1,022,547	\$ 772,305
2022	1,020,955	735,646
2023	1,052,881	249,013
2024	1,058,683	7,037
2025	1,076,048	-
Thereafter	<u>1,428,443</u>	<u>-</u>
Total minimum lease payments	<u>\$ 6,659,557</u>	1,764,001
Less amounts representing interest		<u>(21,368)</u>
		1,742,633
Current portion of capital lease obligations		<u>761,129</u>
Long term portion of capital lease obligations		<u>\$ 981,504</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, 2020.

**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 \$955,489 and \$849,967 for the years ended September 30, 2020 and 2019, respectively.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

The Corporation established a self-funded group health insurance plan. The Corporation has acquired stop-loss insurance for the group health plan which limits its liability to \$100,000 per individual, on an annual basis. The Corporation has accrued \$265,803 and \$411,569 at September 30, 2020 and 2019, respectively, in other liabilities for claims that have been incurred but not reported related to the group health insurance plan.

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(Continued)



#### **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 \$2,588,995 and \$2,510,517 at September 30, 2020 and 2019, respectively. The Company expects to pay \$200,000 for the year ending September 30, 2021 to a retired officer. As such, \$200,000 of the total benefit obligation has been classified as current at September 30, 2020 and 2019. The expense attributable to the plans, included in salaries and employee benefits, was \$278,478 and \$275,459 in 2020 and 2019, respectively. The cash surrender value of the Corporate owned life insurance was \$2,601,795 and \$2,335,224 at September 30, 2020 and 2019, respectively.

#### **NOTE 13 - RELATED PARTY TRANSACTIONS**

CU\*Answers, Inc. provides services to all of its stockholders. Revenues from transactions with stockholders constituted 81% and 75% of total revenues during fiscal 2020 and 2019, respectively. At September 30, 2020 and 2019, 38% and 44%, respectively, of the CU\*Answers, Inc.'s accounts receivable were from its stockholders. Cash and cash equivalents held at stockholder credit unions totaled approximately \$5,038,000 and \$3,436,000 at September 30, 2020 and 2019, 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 \$176,538 and \$141,660 for the years ended September 30, 2020 and 2019, respectively. At September 30, 2020 and 2019, amounts due from Xtend included in accounts receivable - related parties were \$20,959 and \$29,305, respectively. The Company also had accounts payable due to Xtend of \$44,888 and \$44,467 at September 30, 2020 and 2019, respectively. The investment in Xtend is accounted for using the cost method.

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 \$132,600 and \$144,000 for the years ended September 30, 2020 and 2019, respectively. At September 30, 2020 and 2019, amounts due from eDOC included in accounts receivable - related parties were \$61,642 and \$30,762, respectively. The Company also had accounts payable due to eDOC of \$33,882 and \$35,152 at September 30, 2020 and 2019, respectively. 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. provided operational support services including accounting management, and human resources through April 30, 2019, when the agreement expired. Revenue received by CU\*Answers, Inc. for these operational support services totaled \$0 and \$52,500 for the years ended September 30, 2020 and 2019, respectively.

#### **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 \$24,450,939 and \$21,471,044 at September 30, 2020 and 2019, respectively.

#### **NOTE 15 - RISKS AND UNCERTAINTIES**

A novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected. The extent to which the coronavirus (or any other disease or epidemic) impacts results due to labor shortages or productivity impacts, office closures, or other general economic impacts to projects and overall business will depend on future developments. These future developments are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others. The Company has not experienced any significant changes to its business operations at this time.

## **SUPPLEMENTARY INFORMATION**

CU\*ANSWERS, INC.  
SCHEDULES OF REVENUES, COST OF GOODS SOLD, AND SELLING,  
GENERAL AND ADMINISTRATIVE EXPENSES  
Years ended September 30, 2020 and 2019

	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenues				
On-line	\$ 50,500,551	80.88 %	\$ 48,515,084	80.47 %
Self processing	802,655	1.29	997,642	1.65
CNS	9,525,297	15.25	9,509,142	15.77
External	<u>1,609,390</u>	<u>2.58</u>	<u>1,273,666</u>	<u>2.11</u>
	62,437,893	100.00	60,295,534	100.00
Cost of goods sold				
On-line	9,409,400	15.07	9,138,136	15.16
Self processing	2,128,874	3.41	2,091,257	3.47
CNS	4,277,161	6.85	4,470,490	7.41
External	<u>749,025</u>	<u>1.20</u>	<u>738,805</u>	<u>1.22</u>
	<u>16,564,460</u>	<u>26.53</u>	<u>16,438,688</u>	<u>27.26</u>
Gross margin	<u>\$ 45,873,433</u>	<u>73.47 %</u>	<u>\$ 43,856,846</u>	<u>72.74 %</u>
Selling, general and administrative expenses				
Salaries and wages	\$ 17,749,461	28.44 %	\$ 16,932,767	28.07 %
Bonuses and commissions	4,252,883	6.81	3,665,510	6.08
Employee benefits	5,940,000	9.51	6,093,944	10.11
Office and computer supplies	331,113	0.53	361,021	0.60
Utilities	494,390	0.79	468,788	0.78
Property taxes	78,000	0.12	78,000	0.13
Repairs and maintenance	1,492,841	2.39	1,385,771	2.30
Rent	845,041	1.35	814,753	1.35
Insurance	125,113	0.20	119,456	0.20
Depreciation and amortization	3,068,307	4.92	2,884,780	4.78
Professional services	375,644	0.61	429,547	0.71
Purchased services	451,886	0.72	443,567	0.74
Disaster recovery fees	425,787	0.68	442,738	0.73
Travel and entertainment	558,274	0.90	852,888	1.41
Advertising and promotion	569,559	0.91	764,923	1.27
Postage and freight	120,747	0.19	133,599	0.23
Donations	5,345	-	2,175	-
Miscellaneous	<u>215,517</u>	<u>0.35</u>	<u>253,106</u>	<u>0.43</u>
	<u>\$ 37,099,908</u>	<u>59.42 %</u>	<u>\$ 36,127,333</u>	<u>59.92 %</u>