

CU*ANSWERS, INC.

FINANCIAL STATEMENTS
September 30, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020, 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 17, 2021

CU*ANSWERS, INC.
BALANCE SHEETS
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 30,144,916	\$ 26,617,693
Certificates of deposit	617,689	615,709
Accounts receivable (Note 13)	1,054,088	773,340
Accounts receivable - related parties	240,514	167,275
Income tax receivable (Note 3)	709,005	486,400
Note receivable (Note 4)	30,890	-
Equipment and supplies inventory	291,129	89,789
Prepaid expenses		
Maintenance contracts	1,303,254	1,456,991
Insurance	109,521	51,140
Other	<u>587,708</u>	<u>598,052</u>
Total current assets	<u>35,088,714</u>	<u>30,856,389</u>
Property, equipment and software		
Equipment	5,791,000	6,189,943
Software	18,388,012	16,458,797
Furniture and fixtures	1,492,958	1,382,619
Leasehold improvements	4,478,569	4,394,544
Vehicles	169,775	104,854
Software in process	<u>1,153,329</u>	<u>1,699,962</u>
	31,473,643	30,230,719
Less accumulated depreciation and amortization	<u>23,205,328</u>	<u>20,869,054</u>
	8,268,315	9,361,665
Other assets		
Corporate owned life insurance (Note 12)	2,880,141	2,601,795
Investment in Affiliates (Note 5)	3,979,574	2,791,253
Note receivable (Note 4)	<u>175,430</u>	<u>210,584</u>
	<u>7,035,145</u>	<u>5,603,632</u>
	<u>\$ 50,392,174</u>	<u>\$ 45,821,686</u>

(Continued)

CU*ANSWERS, INC.
BALANCE SHEETS
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable - trade	\$ 616,145	\$ 263,719
Accounts payable - related parties	103,674	85,559
Patronage and dividend payable	9,664,168	7,928,544
Current portion of long-term debt (Note 7)	5,400,000	-
Current portion of capital lease obligation (Note 8)	759,515	761,129
Profit sharing payable (Note 10)	979,097	977,908
Current portion of deferred compensation (Note 12)	200,000	200,000
Other liabilities	<u>2,896,382</u>	<u>2,935,519</u>
Total current liabilities	20,618,981	13,152,378
Long-term liabilities		
Long-term debt (Note 7)	-	5,400,000
Capital leases (Note 8)	71,683	981,504
Deferred rent	527,741	501,059
Deferred compensation (Note 12)	2,470,612	2,388,995
Deferred income taxes (Note 3)	<u>601,000</u>	<u>858,800</u>
	3,671,036	10,130,358
Stockholders' equity		
Common stock - par value \$10 per share; 40,000 shares authorized; shares issued and outstanding: 28,600 and 27,400 at September 30, 2021 and 2020, respectively (Note 9)	286,000	274,000
Additional paid-in capital	20,274,571	17,524,643
Retained earnings	<u>5,541,586</u>	<u>4,740,307</u>
	<u>26,102,157</u>	<u>22,538,950</u>
	<u>\$ 50,392,174</u>	<u>\$ 45,821,686</u>

See accompanying notes to financial statements.

CU*ANSWERS, INC.
 STATEMENTS OF INCOME
 Years ended September 30, 2021 and 2020

	<u>2021</u>		<u>2020</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenues (Note 16)	\$ 63,695,934	100.00 %	\$ 62,437,893	100.00 %
Cost of goods sold	<u>15,190,411</u>	<u>23.85</u>	<u>16,564,460</u>	<u>26.53</u>
Gross margin	48,505,523	76.15	45,873,433	73.47
Selling, general and administrative expenses	<u>39,420,868</u>	<u>61.89</u>	<u>37,099,908</u>	<u>59.42</u>
Income before other income (expense), patronage dividends and income taxes	9,084,655	14.26	8,773,525	14.05
Other income (expense)				
Interest income	48,102	0.08	156,371	0.25
Gain (loss) on disposal of assets	(3,234)	(0.01)	6,250	0.01
Interest expense	(311,004)	(0.49)	(371,043)	(0.59)
Gain from Affiliates	<u>1,546,972</u>	<u>2.43</u>	<u>305,621</u>	<u>0.49</u>
	<u>1,280,836</u>	<u>2.01</u>	<u>97,199</u>	<u>0.16</u>
Income before patronage dividends and income taxes	10,365,491	16.27	8,870,724	14.21
Patronage dividends	<u>8,600,000</u>	<u>13.50</u>	<u>7,000,000</u>	<u>11.21</u>
Income before provision for income taxes	1,765,491	2.77	1,870,724	3.00
Provision (benefit) for income taxes (Note 3)	<u>(99,956)</u>	<u>(0.16)</u>	<u>422,317</u>	<u>0.68</u>
Net income	<u>\$ 1,865,447</u>	<u>2.93 %</u>	<u>\$ 1,448,407</u>	<u>2.32 %</u>

See accompanying notes to financial statements.

CU*ANSWERS, INC.
 STATEMENTS OF STOCKHOLDERS' EQUITY
 Years ended September 30, 2021 and 2020

	<u>Common Stock Class A</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, October 1, 2019	\$ 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>
Balance, September 30, 2020	274,000	17,524,643	4,740,307	22,538,950
Redemption of 800 shares of Class A common stock	(8,000)	(650,072)	-	(658,072)
Issuance of 2,000 shares of Class A common stock	20,000	3,400,000	-	3,420,000
Dividends declared	-	-	(1,064,168)	(1,064,168)
Net income	<u>-</u>	<u>-</u>	<u>1,865,447</u>	<u>1,865,447</u>
Balance, September 30, 2021	<u>\$ 286,000</u>	<u>\$ 20,274,571</u>	<u>\$ 5,541,586</u>	<u>\$ 26,102,157</u>

See accompanying notes to financial statements.

CU*ANSWERS, INC.
STATEMENTS OF CASH FLOWS
Years ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Net income	\$ 1,865,447	\$ 1,448,407
Adjustments to reconcile net income to net cash provided by operating activities		
Investments in affiliates	(1,546,972)	(305,621)
Depreciation and amortization	2,876,289	3,068,307
(Gain) loss on disposal of assets	3,234	(6,250)
Deferred income taxes	(257,800)	102,100
Cash value of life insurance	(278,346)	(266,571)
Change in assets and liabilities		
Accounts receivable	(353,987)	212,367
Income taxes	(222,605)	(128,300)
Prepaid expenses	105,700	340,246
Equipment and supplies inventory	(201,340)	320,404
Accounts payable	370,541	(53,428)
Other liabilities	<u>1,670,351</u>	<u>1,632,128</u>
Net cash from operating activities	4,030,512	6,363,789
 Cash flows used in investing activities		
Proceeds from sale of equipment	-	6,250
Certificates of deposit	(1,980)	(105,504)
Purchases of investment in affiliates	(350,000)	-
Purchases of property, equipment and software	(1,778,471)	(2,330,380)
Proceeds from sale of investment in affiliate	708,651	-
Cash received (paid) on note receivable	<u>4,264</u>	<u>(95,384)</u>
Net cash used in investing activities	(1,417,536)	(2,525,018)
 Cash flows used in financing activities		
Payments on long-term debt	-	(120,000)
Payments on capital lease obligations	(919,137)	(802,254)
Dividends paid	(928,544)	(844,071)
Proceeds from issuance of stock	3,420,000	2,310,000
Payments on redemption of stock	<u>(658,072)</u>	<u>(909,650)</u>
Net cash from financing activities	914,247	(365,975)
 Net change in cash and cash equivalents	3,527,223	3,472,796
 Cash and cash equivalents at beginning of year	<u>26,617,693</u>	<u>23,144,897</u>
 Cash and cash equivalents at end of year	<u>\$ 30,144,916</u>	<u>\$ 26,617,693</u>
 Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	\$ 311,004	\$ 371,043
Income taxes	380,449	504,462
 Supplemental disclosures of noncash investing and financing activities		
Financing activity - dividends declared but unpaid	\$ 1,064,168	\$ 928,544
Capital lease obligations entered into during the year	7,702	519,114

See accompanying notes to financial statements.

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

Recently Issued Accounting Pronouncements: On October 1, 2020, the Corporation adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, and all subsequent amendments thereto (collectively, "Topic 606"). Topic 606 supersedes virtually all existing revenue recognition guidance, including industry-specific guidance, and replaces it with a single, comprehensive framework for recognizing revenue from contracts with customers. Topic 606 also requires enhanced disclosure about the Corporation's revenue from contracts with customers. The Corporation elected to adopt Topic 606 using the modified retrospective transition method, including the practical expedient to apply Topic 606 only to contracts not completed as of the date of adoption. The adoption of the new revenue standard resulted in a change in principal vs. agent accounting. During the year ended September 30, 2021, \$763,183 of expense has been recorded net within revenue on the statements of income. The adoption of the new revenue standard did not have any additional impact on the Corporation's financial position, results of operations, or revenues as of the adoption date. See Note 16 for additional information.

Revenue Recognition: The Corporation recognizes revenue from contracts with customers when (or as) control of the promised goods or services transfers to the customer. For product revenue, this generally occurs when the product is delivered to the customer. For service revenue, this generally occurs as the services are provided to the customer. Revenue is recorded at the amount of consideration the Corporation expects to be entitled to in exchange for the goods or services, which includes an estimate of expected returns or refunds when applicable. Revenue is recorded net of sales tax.

For more information about the Corporation's revenue from contracts with customers, refer to Note 16, Revenue Recognition.

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.

(Continued)

CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2021 and 2020

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021 and 2020.

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, 2021 and 2020 were \$823,881 and \$569,559, 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.

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 \$3,840,000 and \$3,402,000 at September 30, 2021 and 2020, respectively. Amortization expense was approximately \$1,430,000 and \$1,455,000 for the years ended September 30, 2021 and 2020, 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.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (contract liabilities) 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 \$280,000 and \$250,000 at September 30, 2021 and 2020, 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, 2021 and 2020 for tax related interest and penalties.

The Corporation is no longer subject to examination for federal tax years before 2017 and for state income taxes before 2016. The Corporation does not expect that total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year's presentation. There was no effect on net income or stockholders' equity as a result of these reclassifications.

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.

(Continued)

CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2021 and 2020

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2021 to determine the need for any adjustments to and/or disclosures within these financial statements for the year ended September 30, 2021. Management has performed their analysis through November 17, 2021, 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>2021</u>	<u>2020</u>
Current state tax expense	\$ 155,465	\$ 76,717
Current federal tax expense	2,379	243,500
Deferred tax (benefit) expense	<u>(257,800)</u>	<u>102,100</u>
	<u>\$ (99,956)</u>	<u>\$ 422,317</u>

Deferred tax assets and liabilities are as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets	\$ 1,376,565	\$ 1,340,087
Deferred tax liabilities	(1,791,775)	(1,923,787)
Valuation allowance	<u>(185,790)</u>	<u>(275,100)</u>
	<u>\$ (601,000)</u>	<u>\$ (858,800)</u>

Income tax expense differs from expense at statutory rates due to the effect of graduated tax rates, nondeductible expenses, and the effects of the research and development credit. 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>2021</u>	<u>2020</u>
Note receivable from a company; dated December 18, 2013, including interest at 2% due quarterly, matures on December 31, 2022.	\$ 6,320	\$ 10,584

(Continued)

CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2021 and 2020

NOTE 4 - NOTE RECEIVABLE (Continued)

	<u>2021</u>	<u>2020</u>
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	\$ 200,000
Less current portion	<u>(30,890)</u>	<u>-</u>
Note receivable long-term portion	<u>\$ 175,430</u>	<u>\$ 210,584</u>

Maturities of note receivable are as follows:

2022	\$ 30,890
2023	70,944
2024	68,610
2025	<u>35,876</u>
	<u>\$ 206,320</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, 2021 and 2020. The investment is accounted for under the equity method. At September 30, 2021 and 2020, the investment in eDOC Innovations, Inc. was \$2,971,481 and \$2,596,645, respectively.

Condensed audited financial information of eDOC Innovations, Inc. as of and for the years ended September 30, 2021 and 2020 is presented as follows:

	Year ended September 30, <u>2021</u>	Year ended September 30, <u>2020</u>
Total assets	<u>\$ 7,067,839</u>	<u>\$ 6,308,558</u>
Total liabilities	\$ 1,074,665	\$ 955,366
Members'/stockholders' equity	<u>5,993,174</u>	<u>5,353,192</u>
	<u>\$ 7,067,839</u>	<u>\$ 6,308,558</u>
Net sales	\$ 5,698,262	\$ 5,443,471
Expenses	<u>4,915,566</u>	<u>4,845,821</u>
Net income	<u>\$ 782,696</u>	<u>\$ 597,650</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, 2021 and 2020, the investment in Site-Four, LLC was \$93,169 and \$59,389, respectively. During the years ended September 30, 2021 and 2020, no impairment was recorded.

(Continued)

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

CU*Answers purchased 5% ownership in CU*Outdoors in August 2021. The investment of \$350,000 is accounted for under the cost method. At September 30, 2021, the investment in CU*Outdoors was \$350,000. During the year ended September 30, 2021, 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. During September 2021, Payveris was acquired by Paymentus and the Corporation received total consideration of \$1,268,576 for its investment in Payveris. The consideration consisted of \$708,653 of cash and 21,412 shares of Paymentus stock valued at \$559,924. The Company recorded a gain on the investment of \$1,138,357 which is included in gain from affiliates on the statements of income for the year ending September 30, 2021. The investment is accounted for under the cost method. At September 30, 2021, the investment in Paymentus was \$559,924. At September 30, 2020, the investment in Payveris was \$130,219. During the years ended September 30, 2021 and 2020, 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, 2021 and 2020, the investment in Xtend, Inc. was \$5,000.

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, 2021 and 2020.

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2021</u>	<u>2020</u>
2017 debenture offerings; 89 - \$60,000 debentures, 1 - \$50,000 debenture, and 1 - \$10,000 debenture at September 30, 2021 and 2020; 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	\$ 5,400,000
Less current portion of long-term debt	<u>(5,400,000)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 5,400,000</u>

(Continued)

CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2021 and 2020

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 October, 2025. Assets recorded under capital leases amount to the following:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 1,560,672	\$ 1,768,761
Accumulated depreciation	<u>(1,077,686)</u>	<u>(558,617)</u>
	<u>\$ 482,986</u>	<u>\$ 1,210,144</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, 2021 and 2020 was \$1,034,040 and \$845,041, 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>
2022	\$ 1,022,916	\$ 737,266
2023	1,059,894	74,154
2024	1,063,905	24,639
2025	1,086,349	1,620
2026	974,336	135
Thereafter	<u>459,502</u>	<u>-</u>
Total minimum lease payments	<u>\$ 5,666,902</u>	837,814
Less amounts representing interest		<u>(6,616)</u>
		831,198
Current portion of capital lease obligations		<u>759,515</u>
Long term portion of capital lease obligations		<u>\$ 71,683</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 Corporation does not have any purchase obligations as of September 30, 2021.

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CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2021 and 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 \$974,284 and \$955,489 for the years ended September 30, 2021 and 2020, 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 \$616,827 and \$265,803 at September 30, 2021 and 2020, respectively, 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 \$2,670,612 and \$2,588,995 at September 30, 2021 and 2020, respectively. The Corporation expects to pay \$200,000 for the year ending September 30, 2022 to a retired officer. As such, \$200,000 of the total benefit obligation has been classified as current at September 30, 2021 and 2020. The expense attributable to the plans, included in salaries and employee benefits, was \$281,617 and \$278,478 in 2021 and 2020, respectively. The cash surrender value of the Corporate owned life insurance was \$2,880,141 and \$2,601,795 at September 30, 2021 and 2020, respectively.

NOTE 13 - RELATED PARTY TRANSACTIONS

CU*Answers, Inc. provides services to all of its stockholders. Revenues from transactions with stockholders constituted 76% and 81% of total revenues during fiscal 2021 and 2020, respectively. At September 30, 2021 and 2020, 29% and 38%, respectively, of the CU*Answers, Inc.'s accounts receivable were from its stockholders. Cash and cash equivalents held at stockholder credit unions totaled approximately \$3,758,000 and \$5,038,000 at September 30, 2021 and 2020, 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 \$250,639 and \$176,538 for the years ended September 30, 2021 and 2020, respectively. The Corporation provides services to Xtend in the normal course of business. Revenue received by CU*Answers, Inc. for these transactions was approximately \$62,400 and \$87,900 for the years ended September 30, 2021 and 2020, respectively. Amounts due from Xtend included in accounts receivable - related parties were \$40,142 and \$20,959 at September 30, 2021 and 2020, respectively. The Corporation also had accounts payable due to Xtend of \$54,263 and \$44,888 at September 30, 2021 and 2020, respectively. The investment in Xtend is accounted for using the cost method.

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CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2021 and 2020

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 was \$126,200 and \$132,600 for the years ended September 30, 2021 and 2020, respectively. The Corporation provides services to eDOC in the normal course of business. Revenue received by CU*Answers, Inc. for these transactions was approximately \$395,900 and \$449,700 for the years ended September 30, 2021 and 2020. Amounts due from eDOC included in accounts receivable - related parties were \$59,096 and \$61,642 at September 30, 2021 and 2020, respectively. The Corporation also had accounts payable due to eDOC of \$38,576 and \$33,882 at September 30, 2021 and 2020, 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 software licensing and financial support services to CU*NW. Revenue received by CU*Answers, Inc. for these software licensing and financial support services totaled \$849,105 and \$678,886 for the years ended September 30, 2021 and 2020, respectively. The Corporation provides services to CU*NW in the normal course of business. Revenue received by CU*Answers, Inc. for these transactions was approximately \$1,334,000 and \$1,199,000 for the years ended September 30, 2021 and 2020, respectively. Amounts due from CU*NW included in accounts receivable - related parties were \$141,276 and \$84,674 at September 30, 2021 and 2020, respectively. The Corporation also had accounts payable due to CU*NW of \$10,835 and \$6,789 at September 30, 2021 and 2020, 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 \$28,190,958 and \$24,450,939 at September 30, 2021 and 2020, respectively.

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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 Corporation 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 Corporation has not experienced any significant changes to its business operations at this time.

NOTE 16 - REVENUE RECOGNITION

Revenues are recognized when control of the promised goods or services transfers to the Corporation's customers in an amount that reflects the consideration the Corporation expects to be entitled to in exchange for those goods or services.

The Corporation has two revenue streams as detailed below:

Credit Union Services

This revenue stream includes various services to credit unions including core data processing, statement and notices processing, software and equipment maintenance, bill pay services, ancillary services, audit link services, accenture mortgage cadence, telephone and data lines services, archiving services, licensing services, credit bureau reporting, custom programming services, mortgage servicing, conversions, indirect loan delivery, and text banking. The Corporation's primary performance obligations consist of monthly access and completion of the services in accordance with the terms of the relevant contract. Revenue is recognized over time for monthly access and at the point in time the services are completed.

Equipment, Software, and Licensing Resale

This revenue stream includes the resale of hardware and software goods. The Corporation's primary performance obligation consists of delivery of the goods in accordance with the terms of the relevant contract. Revenue is recognized when control of the promised goods transfers to the Corporation's customers which is generally upon delivery.

The Corporation either invoices the customer upon completion of the promised services or delivery of the goods, at which time it has an unconditional right to payment, or invoices at the start of the service period, resulting in a deferred revenue being recognized over the service period. Standard payment terms are 30 days with some customers receiving 45, 60, or 90-day terms. The transactions with customers do not include any variable consideration. Accounts receivable, on the balance sheet represents trade receivables for invoiced goods.

The Corporation may receive advance payments from customers which are not recognized until satisfying the performance obligations by completion of the service. The Corporation assesses the expected satisfaction of performance obligations related to the prepayment and has recorded a contract liability as deferred revenue, which is included in other liabilities on the balance sheets at September 30, 2021.

(Continued)

CU*ANSWERS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2021 and 2020

NOTE 16 - REVENUE RECOGNITION (Continued)

Significant Judgments and Practical Expedients Applied: Revenue is measured as the amount of consideration the Corporation expects to receive in exchange for transferring goods and services. Sales and other taxes collected concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are not recognized as separate performance obligations to which a portion of revenue would otherwise be allocated.

The Corporation's contracts typically do not result in situations where there is a time period greater than one year between performance under the contract and collection of the related consideration. The Corporation elected a practical expedient related to significant financing components, where the Corporation expects, at contract inception, that the period between the entity's transfer of a promised good to a customer and the customer's payment for that good will be one year or less.

The Corporation also applies a practical expedient related to costs to obtain a contract and recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the incurred costs that the Corporation otherwise would have capitalized is one year or less. These costs are included in selling, general and administrative expenses on the statements of operations.

The Corporation applies a practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The Corporation does not have material contracts that have original expected durations of more than one year.

SUPPLEMENTARY INFORMATION

CU*ANSWERS, INC.
SCHEDULES OF REVENUES, COST OF GOODS SOLD, AND SELLING,
GENERAL AND ADMINISTRATIVE EXPENSES
Years ended September 30, 2021 and 2020

	<u>2021</u>		<u>2020</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenues				
On-line	\$ 51,823,262	81.36 %	\$ 50,500,551	80.88 %
Self processing	798,004	1.26	802,655	1.29
CNS	9,155,661	14.37	9,525,297	15.26
External	<u>1,919,007</u>	<u>3.01</u>	<u>1,609,390</u>	<u>2.58</u>
	63,695,934	100.00	62,437,893	100.00
Cost of goods sold				
On-line	8,361,946	13.13	9,409,400	15.07
Self processing	2,289,518	3.59	2,128,874	3.41
CNS	3,558,243	5.59	4,277,161	6.85
External	<u>980,704</u>	<u>1.54</u>	<u>749,025</u>	<u>1.20</u>
	<u>15,190,411</u>	<u>23.85</u>	<u>16,564,460</u>	<u>26.53</u>
Gross margin	<u>\$ 48,505,523</u>	<u>76.15 %</u>	<u>\$ 45,873,433</u>	<u>73.47 %</u>
Selling, general and administrative expenses				
Salaries and wages	\$ 18,310,028	28.75 %	\$ 17,749,461	28.44 %
Bonuses and commissions	5,253,340	8.25	4,252,883	6.81
Employee benefits	6,063,273	9.52	5,940,000	9.51
Office and computer supplies	465,148	0.73	331,113	0.53
Utilities	519,384	0.82	494,390	0.79
Property taxes	78,000	0.12	78,000	0.12
Repairs and maintenance	1,623,557	2.55	1,492,841	2.39
Rent	1,034,040	1.62	845,041	1.35
Insurance	138,105	0.22	125,113	0.20
Depreciation and amortization	2,876,289	4.52	3,068,307	4.91
Professional services	318,827	0.50	375,644	0.60
Purchased services	496,910	0.78	451,886	0.72
Disaster recovery fees	411,774	0.65	425,787	0.68
Travel and entertainment	616,847	0.97	558,274	0.89
Advertising and promotion	823,881	1.29	569,559	0.91
Postage and freight	134,975	0.20	120,747	0.20
Donations	2,700	-	5,345	0.01
Miscellaneous	<u>253,790</u>	<u>0.40</u>	<u>215,517</u>	<u>0.36</u>
	<u>\$ 39,420,868</u>	<u>61.89 %</u>	<u>\$ 37,099,908</u>	<u>59.42 %</u>