

**CU\*ANSWERS, INC.**

**FINANCIAL STATEMENTS**  
September 30, 2022 and 2021

CU\*ANSWERS, INC.  
Grand Rapids, Michigan

FINANCIAL STATEMENTS  
September 30, 2022 and 2021

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## INDEPENDENT AUDITOR'S REPORT

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

**Opinion**

We have audited the financial statements of CU\*Answers, Inc., which comprise the balance sheets as of September 30, 2022 and 2021, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CU\*Answers, Inc. as of September 30, 2022 and 2021, 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.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CU\*Answers, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CU\*Answers, Inc.'s ability to continue as a going concern for one year from the date the financial statements are available to be issued.

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(Continued)

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CU\*Answers, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CU\*Answers, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Supplementary Information***

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 22, 2022

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CU\*ANSWERS, INC.  
BALANCE SHEETS  
September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 31,201,690	\$ 30,144,916
Certificates of deposit	863,895	617,689
Accounts receivable (Note 13)	1,378,628	1,054,088
Accounts receivable - related parties	212,144	240,514
Income tax receivable (Note 3)	1,435,377	709,005
Note receivable (Note 4)	65,267	30,890
Equipment and supplies inventory	847,497	291,129
Prepaid expenses		
Maintenance contracts	1,101,269	1,303,254
Insurance	114,913	109,521
Other	742,975	587,708
Total current assets	37,963,655	35,088,714
Property and equipment and software		
Equipment	7,123,477	5,791,000
Software	19,676,138	18,388,012
Furniture and fixtures	1,537,387	1,492,958
Leasehold improvements	4,560,703	4,478,569
Vehicles	127,157	169,775
Software in process	1,022,076	1,153,329
	34,046,938	31,473,643
Less accumulated depreciation and amortization	24,898,011	23,205,328
	9,148,927	8,268,315
Other assets		
Corporate owned life insurance (Note 12)	3,170,654	2,880,141
Investment in Affiliates (Note 5)	4,263,441	3,979,574
Note receivable (Note 4)	111,670	175,430
Total other assets	7,545,765	7,035,145
Total assets	\$ 54,658,347	\$ 50,392,174

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CU\*ANSWERS, INC.  
BALANCE SHEETS  
September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable - trade	\$ 565,553	\$ 616,145
Accounts payable - related parties	91,493	103,674
Patronage and dividend payable	8,428,955	9,664,168
Current portion of long-term debt (Note 7)	-	5,400,000
Current portion of capital lease obligation (Note 8)	740,519	759,515
Profit sharing payable (Note 10)	1,021,070	979,097
Current portion of deferred compensation (Note 12)	350,000	200,000
Other liabilities	<u>2,895,116</u>	<u>2,896,382</u>
Total current liabilities	14,092,706	20,618,981
Long-term liabilities		
Long-term debt (Note 7)	6,360,000	-
Capital leases (Note 8)	1,384,354	71,683
Deferred rent	457,866	527,741
Deferred compensation (Note 12)	2,402,229	2,470,612
Deferred income taxes (Note 3)	<u>593,075</u>	<u>601,000</u>
Total long-term liabilities	11,197,524	3,671,036
Stockholders' equity		
Common stock - par value \$10 per share; 40,000 shares authorized; shares issued and outstanding: 29,400 and 28,600 at September 30, 2022 and 2021, respectively (Note 9)	294,000	286,000
Additional paid-in capital	22,703,937	20,274,571
Retained earnings	<u>6,370,180</u>	<u>5,541,586</u>
Total stockholders' equity	<u>29,368,117</u>	<u>26,102,157</u>
 Total liabilities and stockholders' equity	 <u>\$ 54,658,347</u>	 <u>\$ 50,392,174</u>

See accompanying notes to financial statements.

CU\*ANSWERS, INC.  
STATEMENTS OF INCOME  
Years ended September 30, 2022 and 2021

	<u>2022</u>		<u>2021</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Revenues (Note 16)</b>	\$ 66,881,369	100.00	% \$ 63,695,934	100.00 %
Cost of goods sold	<u>17,074,860</u>	<u>25.53</u>	<u>15,190,411</u>	<u>23.85</u>
<b>Gross margin</b>	49,806,509	74.47	48,505,523	76.15
Selling, general and administrative expenses	<u>41,074,064</u>	<u>61.41</u>	<u>39,420,868</u>	<u>61.89</u>
<b>Income before other income (expense), patronage dividends and income taxes</b>	8,732,445	13.06	9,084,655	14.26
Other income (expense)				
Interest income	212,760	0.32	48,102	0.08
Loss on disposal of assets	(5,042)	(0.01)	(3,234)	(0.01)
Interest expense	(295,136)	(0.44)	(311,004)	(0.49)
Gain from Affiliates	<u>283,867</u>	<u>0.42</u>	<u>1,546,972</u>	<u>2.43</u>
	<u>196,449</u>	<u>0.29</u>	<u>1,280,836</u>	<u>2.01</u>
<b>Income before patronage dividends and income taxes</b>	8,928,894	13.35	10,365,491	16.27
Patronage dividends	<u>7,250,000</u>	<u>10.84</u>	<u>8,600,000</u>	<u>13.50</u>
<b>Income before income taxes</b>	1,678,894	2.51	1,765,491	2.77
Provision (benefit) for income taxes (Note 3)	<u>(328,655)</u>	<u>(0.49)</u>	<u>(99,956)</u>	<u>(0.16)</u>
<b>Net income</b>	<u>\$ 2,007,549</u>	<u>3.00</u>	<u>% \$ 1,865,447</u>	<u>2.93</u> %

See accompanying notes to financial statements.

CU\*ANSWERS, INC.  
STATEMENTS OF STOCKHOLDERS' EQUITY  
Years ended September 30, 2022 and 2021

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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 as of, October 1, 2020</b>	\$ 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>1,865,447</u>	<u>1,865,447</u>
<b>Balances, September 30, 2021</b>	286,000	20,274,571	5,541,586	26,102,157
Redemption of 1,000 shares of Class A common stock	(10,000)	(868,634)	-	(878,634)
Issuance of 1,800 shares of Class A common stock	18,000	3,298,000	-	3,316,000
Dividends declared	-	-	(1,178,955)	(1,178,955)
Net income	-	-	<u>2,007,549</u>	<u>2,007,549</u>
<b>Balances, September 30, 2022</b>	<u>\$ 294,000</u>	<u>\$ 22,703,937</u>	<u>\$ 6,370,180</u>	<u>\$ 29,368,117</u>

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See accompanying notes to financial statements.



CU\*ANSWERS, INC.  
STATEMENTS OF CASH FLOWS  
Years ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 2,007,549	\$ 1,865,447
Adjustments to reconcile net income to net cash provided by operating activities		
Investments in affiliates	(283,867)	(1,546,972)
Depreciation and amortization	3,084,519	2,876,289
Loss on disposal of assets	5,042	3,234
Deferred income taxes	(7,925)	(257,800)
Cash value of life insurance	(290,513)	(278,346)
Changes in assets and liabilities		
Accounts receivable	(296,170)	(353,987)
Income taxes	(726,372)	(222,605)
Prepaid expenses	41,326	105,700
Equipment and supplies inventory	(556,368)	(201,340)
Accounts payable	(62,773)	370,541
Other liabilities	(1,297,551)	1,670,351
Net cash from operating activities	<u>1,616,897</u>	<u>4,030,512</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of equipment	14,000	-
Certificates of deposit	(246,206)	(1,980)
Purchases of investment in affiliates	-	(350,000)
Purchases of property, equipment and software	(1,832,165)	(1,778,471)
Proceeds from sale of investment in affiliate	-	708,651
Cash received on note receivable	29,383	4,264
Net cash from investing activities	<u>(2,034,988)</u>	<u>(1,417,536)</u>
<b>Cash flows from financing activities</b>		
Borrowings on long-term debt	1,510,000	-
Payments on long-term debt	(550,000)	-
Payments on capital lease obligations	(858,333)	(919,137)
Dividends paid	(1,064,168)	(928,544)
Proceeds from issuance of stock	3,316,000	3,420,000
Payments on redemption of stock	(878,634)	(658,072)
Net cash from financing activities	<u>1,474,865</u>	<u>914,247</u>
Net change in cash and cash equivalents	1,056,774	3,527,223
Cash and cash equivalents, beginning of year	<u>30,144,916</u>	<u>26,617,693</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 31,201,690</u>	<u>\$ 30,144,916</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest paid	\$ 295,136	\$ 311,004
Income taxes paid	625,080	380,449
Supplemental disclosures of noncash investing and financing activities		
Financing activity - dividends declared but unpaid	\$ 1,178,955	\$ 1,064,168
Capital lease obligations entered into during the year	2,152,008	7,702

See accompanying notes to financial statements.

CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2022 and 2021

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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**

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 15, 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.

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, 2022 and 2021

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, 2022 and 2021 were \$551,926 and \$823,881, 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. Depreciation expense was approximately \$1,599,000 and \$1,446,000 for the years ended September 30, 2022 and 2021, respectively.

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(Continued)

CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2022 and 2021

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

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 \$3,485,000 and \$3,840,000 at September 30, 2022 and 2021, respectively. Amortization expense was approximately \$1,486,000 and \$1,430,000 for the years ended September 30, 2022 and 2021, 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 (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 \$1,001,000 and \$1,104,000 at September 30, 2022 and 2021, 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.

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CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2022 and 2021

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

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, 2022 and 2021 for tax related interest and penalties.

The Corporation is no longer subject to examination for federal tax years before 2018 and for state income taxes before 2017. 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 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, 2022 to determine the need for any adjustments to and/or disclosures within these financial statements for the year ended September 30, 2022. Management has performed their analysis through November 22, 2022, 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>2022</u>	<u>2021</u>
Current state tax expense	\$ 38,580	\$ 155,465
Current federal tax expense (benefit)	(359,310)	2,379
Deferred tax expense (benefit)	<u>(7,925)</u>	<u>(257,800)</u>
	<u>\$ (328,655)</u>	<u>\$ (99,956)</u>

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(Continued)

CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3 – INCOME TAXES** (Continued)

Deferred tax assets and liabilities are as follows:

	<u>2022</u>	<u>2021</u>
Deferred tax assets	\$1,388,193	\$ 1,376,565
Deferred tax liabilities	(1,924,301)	(1,791,775)
Valuation allowance	<u>(56,967)</u>	<u>(185,790)</u>
	<u>\$ (593,075)</u>	<u>\$ (601,000)</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>2022</u>	<u>2021</u>
Note receivable from a company; dated December 18, 2013, including interest at 2% due quarterly, paid in full on September 9, 2022.	\$ -	\$ 6,320
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.	176,937	200,000
Less current portion	<u>(65,267)</u>	<u>(30,890)</u>
Note receivable long-term portion	<u>\$ 111,670</u>	<u>\$ 175,430</u>

Maturities of note receivable are as follows:

2023	\$ 65,267
2024	69,293
2025	<u>42,377</u>
	<u>\$ 176,937</u>

(Continued)

CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 – INVESTMENT IN AFFILIATES**

CU\*Answers is a minority shareholder in eDOC Innovations, Inc. with a 48.612% ownership interest as of September 30, 2022 and 2021. The investment is accounted for under the equity method. At September 30, 2022 and 2021, the investment in eDOC Innovations, Inc. was \$3,518,256 and \$2,971,481, respectively.

Condensed audited financial information of eDOC Innovations, Inc. as of and for the years ended September 30, 2022 and 2021 is presented as follows:

	Year Ended September 30, <u>2022</u>	Year Ended September 30, <u>2021</u>
Total assets	\$ 8,141,832	\$ 7,067,839
Total liabilities	\$ 1,415,577	\$ 1,074,665
Members'/stockholders' equity	<u>6,726,255</u>	<u>5,993,174</u>
	<u>\$ 8,141,832</u>	<u>\$ 7,067,839</u>
Net sales	\$ 6,497,463	\$ 5,698,262
Expenses	<u>5,336,239</u>	<u>4,915,566</u>
Net income	<u>\$ 1,161,224</u>	<u>\$ 782,696</u>

CU\*Answers 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, 2022 and 2021, the investment in Site-Four, LLC was \$99,560 and \$93,169, respectively. During the years ended September 30, 2022 and 2021, no impairment was recorded.

CU\*Answers purchased 5% ownership in CU\*Outdoors in August 2021 for a cash investment of \$350,000 and \$150,000 credit for future services. At September 30, 2022 and 2021, the investment in CU\*Outdoors was \$432,500 and \$350,000, respectively. The Corporation determined there was no readily determinable fair value and has recorded the investment at cost less any impairment incurred. During the years ended September 30, 2022 and 2021, no impairment was recorded.

CU\*Answers purchased a 4% investment in Payveris in September 2015. Payveris provided licensing services to CU\*Answers customers. Prior to 2021, the initial investment was impaired by \$130,219. During 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 publicly traded shares of Paymentus stock valued at \$559,924. As a result of the transaction, the Corporation recorded as investment in affiliates on September 30, 2021 of \$559,924, the value of the stock received, and a gain on the investment of \$1,138,357, which is included in gain from affiliates on the statement of income for the year ending September 30, 2021. At September 30, 2022, the investment in Paymentus was adjusted to fair value of \$208,125 based upon the on quoted stock price. The change in fair value is included in gain from affiliates on the statement of income for the year ended September 30, 2022. During the years ended September 30, 2022 and 2021, no impairment was recorded.

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CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2022 and 2021

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**NOTE 5 – INVESTMENT IN AFFILIATES (Continued)**

CU\*Answers purchased 1.25% ownership in Xtend, Inc in November 2002 for \$5,000. The Corporation determined there was no readily determinable fair value and has recorded the investment at cost less any impairment incurred. At September 30, 2022 and 2021, the investment in Xtend, Inc. was \$5,000.

**NOTE 6 – LINE OF CREDIT**

CU\*Answers 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. There were no borrowings on the line at September 30, 2022 and 2021.

**NOTE 7 – LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2022</u>	<u>2021</u>
2017 debenture offerings; 89 - \$60,000 debentures, 1 - \$50,000 debenture, and 1 - \$10,000 debenture at September 30, 2021; renewed or paid in full on June 30, 2022.	\$ -	\$ 5,400,000
2022 debenture offerings; 106 - \$60,000 debentures at September 30, 2022; payable in full on June 30, 2027; 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.	6,360,000	-
	<u>6,360,000</u>	<u>5,400,000</u>
Less current portion of long-term debt	<u>-</u>	<u>(5,400,000)</u>
	<u>\$ 6,360,000</u>	<u>\$ -</u>

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(Continued)

CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2022 and 2021

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

	<u>2022</u>	<u>2021</u>
Equipment	\$ 2,660,425	\$ 1,560,672
Accumulated depreciation	<u>(693,829)</u>	<u>(1,077,686)</u>
	<u>\$ 1,966,596</u>	<u>\$ 482,986</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, 2022 and 2021 was \$1,026,133 and \$1,034,040, 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>
2023	\$ 1,059,894	766,299
2024	1,063,905	713,506
2025	1,086,349	615,222
2026	974,336	82,370
Thereafter	<u>459,502</u>	<u>-</u>
Total minimum lease payments	<u>\$ 4,643,986</u>	2,177,397
Less amounts representing interest		<u>(52,524)</u>
		2,124,873
Current portion of capital lease obligations		<u>740,519</u>
Long term portion of capital lease obligations		<u>\$ 1,384,354</u>

**NOTE 9 – CAPITAL STOCK**

CU\*Answers 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 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 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, 2022.

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**NOTE 10 – RETIREMENT PLANS**

The Corporation maintains a 401(k) plan in which substantially all of its employees may participate. The plan includes a provision for the Corporation to match a percentage of the employees' contributions at a rate prescribed in the plan agreement. The Corporation's contributions to the plan resulted in expense of \$1,021,070 and \$974,284 for the years ended September 30, 2022 and 2021, 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 \$1,071,377 and \$616,827 at September 30, 2022 and 2021, 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 maintains supplemental retirement plans for selected officers. CU\*Answers has purchased insurance contracts on the lives of certain participants in the supplemental retirement plans and has named CU\*Answers as the beneficiary. CU\*Answers 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 \$2,752,229 and \$2,670,612 at September 30, 2022 and 2021, respectively. The Corporation expects to pay \$350,000 during the year ending September 30, 2023 to a retired officer. The Corporation paid \$200,000 during the years ended September 30, 2022 and 2021 to a retired officer. As such, \$350,000 and \$200,000 of the total benefit obligation has been classified as current at September 30, 2022 and 2021, respectively. The expense attributable to the plans, included in selling, general, and administrative expenses on the statements of income was \$281,617 for the years ended September 30, 2022 and 2021. The cash surrender value of the Corporate owned life insurance was \$3,170,654 and \$2,880,141 at September 30, 2022 and 2021, respectively.

**NOTE 13 – RELATED PARTY TRANSACTIONS**

CU\*Answers provides services to all of its stockholders. Revenues from transactions with stockholders constituted 70% and 76% of total revenues during fiscal 2022 and 2021, respectively. At September 30, 2022 and 2021, 33% and 29%, respectively, of the CU\*Answers' accounts receivable were from its stockholders. Cash and cash equivalents held at stockholder credit unions totaled approximately \$6,794,032 and \$3,758,000 at September 30, 2022 and 2021, respectively.

CU\*Answers 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 provides services to Xtend through the normal course of business and operational support services including the use of office space, computer equipment, lease employees and various human resources. Revenue received by CU\*Answers, Inc. for these services totaled \$336,185 and \$250,639 for the years ended September 30, 2022 and 2021, respectively. Xtend provides services to the Corporation in the normal course of business. Purchases from Xtend for these transactions was approximately \$647,631 and \$641,707 for the years ended September 30, 2022 and 2021, respectively. Amounts due from Xtend included in accounts receivable – related parties were \$21,847 and \$40,142 at September 30, 2022 and 2021, respectively. The Corporation also had accounts payable due to Xtend of \$49,047 and \$54,263 at September 30, 2022 and 2021, respectively. The investment in Xtend is accounted for using the cost method.

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**NOTE 13 – RELATED PARTY TRANSACTIONS (Continued)**

CU\*Answers 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 provides services in the normal course of business, managed network services and operational support services including the use of office space, computer equipment and various human resources to eDOC of \$719,519 and \$754,391 for the years ended September 30, 2022 and 2021, respectively. eDOC provides services to the Corporation the normal course of business. Purchases from eDOC for these transactions was approximately \$540,000 and \$501,000 for the years September 30, 2022 and 2021. Amounts due from eDOC included in accounts receivable – related parties were \$84,723 and \$59,096 at September 30, 2022 and 2021, respectively. The Corporation also had accounts payable due to eDOC of \$41,926 and \$38,576 at September 30, 2022 and 2021, respectively. The investment in eDOC is accounted for using the equity method, see Note 5 for further discussion of this investment.

CU\*Answers is a minority shareholder of CU\*Northwest, Inc. (CU\*NW). CU\*Answers provides services including software licensing and financial support services to CU\*NW in the normal course of business. Revenue received by CU\*Answers for these services \$2,388,981 and \$2,183,105 for the years ended September 30, 2022 and 2021, respectively. Amounts due from CU\*NW included in accounts receivable – related parties were \$106,114 and \$141,276 at September 30, 2022 and 2021, respectively. The Corporation also had accounts payable due to CU\*NW of \$0 and \$10,835 at September 30, 2022 and 2021, 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 \$29,868,666 and \$28,190,958 at September 30, 2022 and 2021, respectively. In addition, the Payveris investment, as disclosed in Note 5, is measured at fair value on an annual basis using Level 1 inputs.

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## NOTE 15 – 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, 17accenture 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 deferred revenue of approximately \$1,001,000 and \$1,104,000 at September 30, 2022 and 2021, respectively, in other liabilities on the balance sheets.

The timing of revenue recognition and billings results in billed accounts receivable and customer deposits (e.g. contract liability) on the consolidated balance sheet. These contract liabilities are reported on the consolidated balance sheet on a contract-by-contract basis at the end of each reporting period as customer deposits. Customer deposits relate to invoices issued in advance of performance obligations under the contract and are recognized as revenue when the Company performs its obligation under the contract.

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.

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**NOTE 15 – REVENUE RECOGNITION** (Continued)

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 income.

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, 2022 and 2021

	<u>2022</u>		<u>2021</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenues				
On-line	\$ 52,914,350	79.12 %	\$ 51,823,262	81.36 %
Self processing	734,071	1.10	798,004	1.25
CNS	10,551,650	15.78	9,155,661	14.37
External	<u>2,681,298</u>	<u>4.01</u>	<u>1,919,007</u>	<u>3.01</u>
	66,881,369	100.00	63,695,934	100.00
Cost of goods sold				
On-line	8,859,631	13.25	8,361,946	13.13
Self processing	2,567,291	3.84	2,289,518	3.59
CNS	4,544,526	6.79	3,558,243	5.59
External	<u>1,103,412</u>	<u>1.65</u>	<u>980,704</u>	<u>1.54</u>
	<u>17,074,860</u>	<u>25.53</u>	<u>15,190,411</u>	<u>23.85</u>
Gross margin	<u>\$ 49,806,509</u>	<u>74.47 %</u>	<u>\$ 48,505,523</u>	<u>76.15 %</u>
Selling, general and administrative expenses				
Salaries and wages	\$ 19,577,532	29.27 %	\$ 18,310,028	28.75 %
Bonuses and commissions	4,705,950	7.04	5,253,340	8.25
Employee benefits	6,517,610	9.75	6,063,273	9.52
Office and computer supplies	413,161	0.61	465,148	0.73
Utilities	540,260	0.81	519,384	0.82
Property taxes	54,000	0.08	78,000	0.12
Repairs and maintenance	1,885,346	2.82	1,623,557	2.55
Rent	1,026,133	1.53	1,034,040	1.62
Insurance	141,906	0.21	138,105	0.22
Depreciation and amortization	3,084,519	4.61	2,876,289	4.52
Professional services	311,335	0.47	318,827	0.50
Purchased services	509,106	0.76	496,910	0.78
Disaster recovery fees	389,444	0.58	411,774	0.65
Travel and entertainment	884,950	1.32	616,847	0.97
Advertising and promotion	551,926	0.83	823,881	1.29
Postage and freight	144,539	0.22	134,975	0.21
Donations	3,885	0.01	2,700	-
Miscellaneous	<u>332,462</u>	<u>0.49</u>	<u>253,790</u>	<u>0.39</u>
	<u>\$ 41,074,064</u>	<u>61.41 %</u>	<u>\$ 39,420,868</u>	<u>61.89 %</u>