

**CU\*ANSWERS, INC.**

**FINANCIAL STATEMENTS**

September 30, 2017 and 2016

CU\*ANSWERS, INC.  
Grand Rapids, Michigan

FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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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, 2017 and 2016, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CU\*Answers, Inc. as of September 30, 2017 and 2016, 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 Horwath LLP*

Crowe Horwath LLP

Grand Rapids, Michigan  
November 13, 2017

CU\*ANSWERS, INC.  
BALANCE SHEETS  
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 14,357,075	\$ 11,357,283
Certificates of deposit	1,000,970	1,000,809
Accounts receivable (Note 12)	991,591	941,309
Accounts receivable - related parties	115,915	124,083
Income tax receivable (Note 3)	827,300	619,800
Note receivable (Note 4)	8,026	7,965
Equipment and supplies inventory	98,271	81,765
Prepaid expenses		
Maintenance contracts	979,104	970,267
Insurance	201,859	184,778
Other	<u>650,600</u>	<u>578,305</u>
Total current assets	<u>19,230,711</u>	<u>15,866,364</u>
Property, equipment and software		
Equipment	5,499,510	6,924,759
Software	13,961,414	12,584,121
Furniture and fixtures	1,497,103	1,448,541
Leasehold improvements	4,361,808	4,305,876
Vehicles	109,542	109,542
Software in process	<u>1,157,890</u>	<u>1,401,510</u>
	26,587,267	26,774,349
Less accumulated depreciation and amortization	<u>16,500,159</u>	<u>15,492,151</u>
	10,087,108	11,282,198
Other assets		
Corporate owned life insurance (Note 11)	1,847,874	1,622,077
Investment in Affiliates (Note 5)	2,306,549	2,361,091
Note receivable (Note 4)	<u>624,709</u>	<u>632,734</u>
	<u>4,779,132</u>	<u>4,615,902</u>
	<u>\$ 34,096,951</u>	<u>\$ 31,764,464</u>

(Continued)

CU\*ANSWERS, INC.  
BALANCE SHEETS  
September 30, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable - trade	\$ 495,191	\$ 645,064
Accounts payable - related parties	89,683	85,086
Patronage and dividend accrual	5,138,456	4,097,198
Current portion of long-term debt (Note 7)	-	4,970,000
Current portion of capital lease obligation (Note 8)	421,169	437,814
Profit sharing payable (Note 10)	720,287	709,492
Current portion of deferred compensation (Note 11)	200,000	-
Other liabilities	<u>982,374</u>	<u>1,199,496</u>
Total current liabilities	8,047,160	12,144,150
Long-term liabilities		
Long-term debt (Note 7)	5,820,000	-
Capital leases (Note 8)	529,602	821,311
Deferred rent	641,390	670,624
Deferred compensation (Note 11)	2,162,492	2,067,544
Deferred income taxes (Note 3)	<u>1,361,000</u>	<u>1,441,453</u>
	10,514,484	5,000,932
Stockholders' equity		
Common stock - par value \$10 per share; 40,000 shares authorized; shares issued and outstanding: 25,000 and 25,600 at September 30, 2017 and 2016, respectively (Note 9)	250,000	256,000
Additional paid-in capital	11,696,353	11,439,964
Retained earnings	<u>3,588,954</u>	<u>2,923,418</u>
	<u>15,535,307</u>	<u>14,619,382</u>
	<u>\$ 34,096,951</u>	<u>\$ 31,764,464</u>

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See accompanying notes to financial statements.

CU\*ANSWERS, INC.  
 STATEMENTS OF INCOME  
 Years ended September 30, 2017 and 2016

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Revenues</b> (Note 12)	\$ 54,026,226	100.00 %	\$ 52,050,398	100.00 %
Cost of goods sold	<u>14,299,610</u>	<u>26.47</u>	<u>16,046,424</u>	<u>30.83</u>
<b>Gross margin</b>	39,726,616	73.53	36,003,974	69.17
Selling, general and administrative expenses	<u>32,833,863</u>	<u>60.77</u>	<u>30,751,809</u>	<u>59.08</u>
<b>Income before other income (expense), patronage dividends and income taxes</b>	6,892,753	12.76	5,252,165	10.09
Other income (expense)				
Interest income	111,273	0.21	49,135	0.09
Gain (loss) on disposal of assets	(31,851)	(0.06)	1,056	-
Interest expense	(261,042)	(0.48)	(220,977)	(0.42)
Income (loss) from Affiliates	<u>(54,544)</u>	<u>(0.10)</u>	<u>63,861</u>	<u>0.12</u>
	<u>(236,164)</u>	<u>(0.43)</u>	<u>(106,925)</u>	<u>(0.21)</u>
<b>Income before patronage dividends and income taxes</b>	6,656,589	12.33	5,145,240	9.88
Patronage dividends	<u>4,500,000</u>	<u>8.33</u>	<u>3,500,000</u>	<u>6.72</u>
<b>Income before provision for income taxes</b>	2,156,589	4.00	1,645,240	3.16
Provision for income taxes (Note 3)	<u>852,597</u>	<u>1.58</u>	<u>566,554</u>	<u>1.09</u>
<b>Net income</b>	<u>\$ 1,303,992</u>	<u>2.42 %</u>	<u>\$ 1,078,686</u>	<u>2.07 %</u>

See accompanying notes to financial statements.

CU\*ANSWERS, INC.  
STATEMENTS OF STOCKHOLDERS' EQUITY  
Years ended September 30, 2017 and 2016

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	<u>Common Stock Class A</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance, October 1, 2015</b>	\$ 248,000	\$ 10,246,618	\$ 2,441,930	\$ 12,936,548
Redemption of 400 shares of Class A common stock	(4,000)	(204,654)	-	(208,654)
Issuance of 1,200 shares of Class A common stock	12,000	1,398,000	-	1,410,000
Dividends declared	-	-	(597,198)	(597,198)
Net income	<u>-</u>	<u>-</u>	<u>1,078,686</u>	<u>1,078,686</u>
<b>Balance, September 30, 2016</b>	256,000	11,439,964	2,923,418	14,619,382
Redemption of 1,400 shares of Class A common stock	(14,000)	(775,611)	-	(789,611)
Issuance of 800 shares of Class A common stock	8,000	1,032,000	-	1,040,000
Dividends declared	-	-	(638,456)	(638,456)
Net income	<u>-</u>	<u>-</u>	<u>1,303,992</u>	<u>1,303,992</u>
<b>Balance, September 30, 2017</b>	<u>\$ 250,000</u>	<u>\$ 11,696,353</u>	<u>\$ 3,588,954</u>	<u>\$ 15,535,307</u>

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See accompanying notes to financial statements.



CU\*ANSWERS, INC.  
STATEMENTS OF CASH FLOWS  
Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 1,303,992	\$ 1,078,686
Adjustments to reconcile net income to net cash provided by operating activities		
Investments in affiliates	54,542	(63,861)
Depreciation and amortization	2,888,199	2,867,294
(Gain) loss on disposal of assets	31,851	(1,056)
Deferred income taxes	(80,453)	423,153
Cash value of life insurance	(225,797)	(182,640)
Change in assets and liabilities		
Accounts receivable	(42,114)	(195,268)
Income taxes	(207,500)	(166,600)
Prepaid expenses	(98,213)	(244,794)
Equipment and supplies inventory	(16,506)	39,178
Accounts payable	(145,276)	42,863
Other liabilities	<u>1,059,387</u>	<u>1,138,486</u>
Net cash from operating activities	4,522,112	4,735,441
 <b>Cash flows used in investing activities</b>		
Proceeds from sale of equipment	1,050	8,000
Certificates of deposit	(161)	(250,585)
Purchases of property, equipment and software	(1,580,309)	(2,658,398)
Cash received (paid) on note receivable	<u>7,964</u>	<u>(501,230)</u>
Net cash used in investing activities	(1,571,456)	(3,402,213)
 <b>Cash flows from financing activities</b>		
Payments on long-term debt	(660,000)	-
Borrowings of long-term debt	1,510,000	-
Payments on capital lease obligations	(454,055)	(554,443)
Dividends paid	(597,198)	(529,118)
Proceeds from issuance of stock	1,040,000	1,410,000
Payments on redemption of stock	<u>(789,611)</u>	<u>(208,654)</u>
Net cash from financing activities	<u>49,136</u>	<u>117,785</u>
 Net change in cash and cash equivalents	2,999,792	1,451,013
 Cash and cash equivalents at beginning of year	<u>11,357,283</u>	<u>9,906,270</u>
 <b>Cash and cash equivalents at end of year</b>	<u>\$ 14,357,075</u>	<u>\$ 11,357,283</u>
 Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	\$ 261,042	\$ 220,977
Income taxes	1,140,550	310,001
 Supplemental disclosures of noncash investing and financing activities		
Financing activity - dividends declared	\$ 638,456	\$ 597,198
Capital lease obligations entered into during the year	145,701	1,224,892

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

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, 2017 and 2016.

Equipment and Supplies Inventory: Inventories, which consist primarily of equipment and supplies for sale, are stated at the lower of cost or market, 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, 2017 and 2016 were \$797,841 and \$768,458, respectively.

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

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

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(Continued)

CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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

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

Unamortized costs were approximately \$4,466,000 and \$4,221,000 at September 30, 2017 and 2016, respectively. Amortization expense was approximately \$1,228,000 and \$1,093,000 for the years ended September 30, 2017 and 2016, respectively.

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

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

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

Customer Deposits: Customer deposits represent advance payments received from customers for software purchases, installation and support services. Revenue related to these contracts is recognized upon successful installation. The Corporation has included deferred revenue of approximately \$335,000 and \$743,000 at September 30, 2017 and 2016, respectively, in other liabilities on the balance sheet.

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

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

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

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(Continued)

CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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

The Corporation recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. There were no amounts expensed or accrued as of and for the years ended September 30, 2017 and 2016 for tax related interest and penalties.

The Corporation is no longer subject to examination for federal tax years before 2013 and for state income taxes before 2012. The Corporation does not expect that total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months.

Adoption of New Accounting Standards: In November 2015, the FASB amended existing guidance related to the balance sheet classification of deferred taxes. The amendments require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. These amendments are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early application is permitted. The transition provisions allow for either prospective or retrospective application. The Company has elected to early adopt the amendments retrospectively. As a result, reported current liabilities on the balance sheet were decreased by \$412,300 for September 30, 2016 and reported long term liabilities on the balance sheet were increased by \$412,300 for September 30, 2016 as a result of retrospective application of the amendments.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These estimates and assumptions may change in the near future resulting in different actual results. Estimates associated with allowance for doubtful accounts, deferred income taxes, lives of fixed assets and intangible assets, and the value of the investment in affiliates are particularly susceptible to material change in the near term.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2017 to determine the need for any adjustments to and/or disclosures within these financial statements for the year ended September 30, 2017. Management has performed their analysis through November 13, 2017, 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 for income taxes consists of the following:

	<u>2017</u>	<u>2016</u>
Current state tax expense	\$ 81,350	\$ 6,900
Current federal tax expense	851,700	136,501
Deferred tax expense (benefit)	<u>(80,453)</u>	<u>423,153</u>
	<u>\$ 852,597</u>	<u>\$ 566,554</u>

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CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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**NOTE 3 - INCOME TAXES** (Continued)

Deferred tax assets and liabilities are as follows:

	<u>2017</u>	<u>2016</u>
Deferred tax assets	\$ 2,026,950	\$ 1,895,900
Deferred tax liabilities	(2,819,150)	(2,790,253)
Valuation allowance	<u>(568,800)</u>	<u>(547,100)</u>
	<u>\$ (1,361,000)</u>	<u>\$ (1,441,453)</u>

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

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

**NOTE 4 - NOTE RECEIVABLE**

Note receivable consists of the following:

	<u>2017</u>	<u>2016</u>
Note receivable from a company; dated December 18, 2013, including interest at 2% due quarterly. Originally maturing on December 31, 2015, the note receivable was extended during 2016 and matures on December 31, 2019.	\$ 20,000	\$ 20,000
Note receivable from a company; dated April 12, 2015, including interest of 6% due quarterly per annum. Converting to a three year note on April 12, 2020, including interest of 6%, with principal and interest due monthly, matures on April 12, 2023.	100,000	100,000
Note receivable from a company; dated April 1, 2016, including interest of .75% per annum. Note is payable in 36 monthly principal and interest installments of \$674. The note matures on April 1, 2019.	12,735	20,699
Convertible note receivable from a company; dated July 7, 2016, with interest of 6% due monthly and with a maturity date of July 6, 2021.	500,000	500,000
Less current portion	<u>(8,026)</u>	<u>(7,965)</u>
Note receivable long-term portion	<u>\$ 624,709</u>	<u>\$ 632,734</u>

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(Continued)

CU\*ANSWERS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2017 and 2016

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

Maturities of note receivable are as follows:

2018	\$ 8,026
2019	4,709
2020	36,667
2021	533,333
2022	33,333
Thereafter	<u>16,667</u>
	<u>\$ 632,735</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, 2017 and 2016. The investment is accounted for under the equity method.

Condensed audited financial information of eDOC Innovations, Inc. as of and for the years ended September 30, 2017 and 2016 is presented as follows:

	Year ended September 30, <u>2017</u>	Year ended September 30, <u>2016</u>
Total assets	<u>\$ 5,636,375</u>	<u>\$ 5,696,237</u>
Total liabilities	\$ 1,459,963	\$ 1,487,881
Members'/stockholders' equity	<u>4,176,412</u>	<u>4,208,356</u>
	<u>\$ 5,636,375</u>	<u>\$ 5,696,237</u>
Net sales	\$ 4,436,148	\$ 4,364,461
Expenses	<u>4,468,092</u>	<u>4,205,174</u>
Net income	<u>\$ (31,944)</u>	<u>\$ 159,287</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. During the years ended September 30, 2017 and 2016, no impairment was recorded.

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

CU\*Answers, Inc. purchased 4% investment in Payveris in September 2015. Payveris provides licensing services to CU\*Answers customers. The initial investment of \$260,438 is accounted for under the cost method. During the years ended September 30, 2017 and 2016, no impairment was recorded.

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CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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**NOTE 6 - LINE OF CREDIT**

CU\*Answers, Inc. has available a revolving line of credit with Alloya Corporate Federal Credit Union (Alloya), dated December 27, 2000, with no set maturity date. The agreement provides for maximum borrowings of \$100,000 with interest payable monthly based upon Alloya's standard rate. The available line of credit is secured by specific assets of CU\*Answers, Inc. There were no borrowings on the line at September 30, 2017 and 2016.

**NOTE 7 - LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2017</u>	<u>2016</u>
2012 debenture offerings; 82 - \$60,000 debentures, 1 - \$30,000 debenture, and 1 - \$20,000 debenture at September 30, 2016 and 2015 payable in full on June 30, 2017; 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.	\$ -	\$ 4,970,000
2017 debenture offerings; 96 - \$60,000 debentures, 1 - \$50,000 debenture, and 1 - \$10,000 debenture at September 30, 2017 payable in full on June 30, 2022; interest payable quarterly at prime plus 0.5%. Interest rates are adjusted annually and are limited to a 1% adjustment with a 7.0% ceiling and 3.0% floor.	5,820,000	-
Less current portion of long-term debt	<u>-</u>	<u>4,970,000</u>
	<u>\$ 5,820,000</u>	<u>\$ -</u>

**NOTE 8 - LEASE COMMITMENTS**

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

	<u>2017</u>	<u>2016</u>
Equipment	\$ 1,371,627	\$ 2,570,070
Accumulated depreciation	<u>(648,578)</u>	<u>(1,585,103)</u>
	<u>\$ 723,049</u>	<u>\$ 984,967</u>

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(Continued)

CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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

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, 2017 and 2016 was \$814,811 and \$818,267, 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:

	Operating <u>Leases</u>	Capital <u>Leases</u>
2018	\$ 818,772	\$ 455,542
2019	829,330	418,939
2020	827,597	126,071
2021	817,064	-
2022	818,259	-
Thereafter	<u>3,966,402</u>	<u>-</u>
Total minimum lease payments	<u>\$ 8,077,424</u>	1,000,552
Less amounts representing interest		<u>(49,781)</u>
		950,771
Current portion of capital lease obligations		<u>421,169</u>
Long term portion of capital lease obligations		<u>\$ 529,602</u>

**NOTE 9 - CAPITAL STOCK**

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

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

CU\*Answers, Inc. is obligated to purchase shares of stock of withdrawing stockholders. Payment for Class A and Class B shares is required within 30 days. The purchase price for both classes of stock is the book value of the stock as of the end of the prior fiscal year. The Company does not have any purchase obligations as of September 30, 2017.

**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 \$729,843 and \$701,164 for the years ended September 30, 2017 and 2016, respectively.

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(Continued)



#### **NOTE 11 - 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 \$2,362,492 and \$2,067,544 at September 30, 2017 and 2016, respectively. During 2017, an officer covered by the plan retired. The Company expects to pay \$200,000 a year for the next five years to the retired officer. As such, \$200,000 of the total benefit obligation has been classified as current at September 30, 2017. The expense attributable to the plans, included in salaries and employee benefits, was \$328,948 and \$267,555 in 2017 and 2016, respectively. The cash surrender value of the Corporate owned life insurance was \$1,847,874 and \$1,622,077 at September 30, 2017 and 2016, respectively.

#### **NOTE 12 - RELATED PARTY TRANSACTIONS**

CU\*Answers, Inc. provides services to all of its stockholders. Revenues from transactions with stockholders constituted 70% and 74% of total revenues during fiscal 2017 and 2016, respectively. At September 30, 2017 and 2016, 77% and 51%, respectively, of the CU\*Answers, Inc.'s accounts receivable were from its stockholders. Cash and cash equivalents held at stockholder credit unions totaled approximately \$3,773,921 and \$3,432,666 at September 30, 2017 and 2016, 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 \$183,153 and \$244,675 for the years ended September 30, 2017 and 2016, respectively. The investment in Xtend is accounted for using the cost method.

CU\*Answers, Inc. is a minority shareholder of eDOC Innovations, Inc. (eDOC). eDOC provides software and specialized consulting services, specifically relating to document management systems, to credit unions and savings and loan institutions throughout the United States. CU\*Answers, Inc. provided operational support services including the use of office space, computer equipment and various human resources. Revenue received by CU\*Answers, Inc. for these operational support services totaled \$144,000 and \$144,000 for the years ended September 30, 2017 and 2016. The investment in eDOC is accounted for using the equity method, see Note 5 for further discussion of this investment.

CU\*Answers, Inc. is a minority shareholder of CU\*Northwest, Inc. (CU\*NW). CU\*Answers, Inc. provides operational support services including accounting management, and human resources. Revenue received by CU\*Answers, Inc. for these operational support services totaled \$82,250 and \$80,210 for the years ended September 30, 2017 and 2016, respectively. The investment in CU\*NW is accounted for using the cost method.

#### **NOTE 13 - 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:

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(Continued)

CU\*ANSWERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2017 and 2016

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**NOTE 13 - FAIR VALUE** (Continued)

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 \$13,978,119 and \$10,951,874 at September 30, 2017 and 2016, respectively.

**SUPPLEMENTARY INFORMATION**

CU\*ANSWERS, INC.  
SCHEDULES OF REVENUES, COST OF GOODS SOLD, AND SELLING,  
GENERAL AND ADMINISTRATIVE EXPENSES  
Years ended September 30, 2017 and 2016

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Revenues				
On-line	\$ 40,812,632	75.54 %	\$ 38,956,454	74.84 %
Self processing	2,714,726	5.03	2,832,467	5.44
CNS	7,396,080	13.69	6,969,228	13.39
External	<u>3,102,788</u>	<u>5.74</u>	<u>3,292,249</u>	<u>6.33</u>
	54,026,226	100.00	52,050,398	100.00
Cost of goods sold				
On-line	10,149,439	18.79	11,231,658	21.58
Self processing	783,400	1.45	1,016,715	1.95
CNS	2,874,892	5.32	2,917,013	5.61
External	<u>491,879</u>	<u>0.91</u>	<u>881,038</u>	<u>1.69</u>
	<u>14,299,610</u>	<u>26.47</u>	<u>16,046,424</u>	<u>30.83</u>
Gross margin	<u>\$ 39,726,616</u>	<u>73.53 %</u>	<u>\$ 36,003,974</u>	<u>69.17 %</u>
Selling, general and administrative expenses				
Salaries and wages	\$ 15,138,047	28.03 %	\$ 14,308,281	27.49 %
Bonuses and commissions	3,172,867	5.87	2,666,031	5.12
Employee benefits	5,130,559	9.50	4,614,097	8.86
Office and computer supplies	406,461	0.75	377,382	0.73
Utilities	477,773	0.88	495,199	0.95
Property taxes	90,000	0.17	84,000	0.16
Repairs and maintenance	1,665,078	3.08	1,600,764	3.08
Rent	814,811	1.51	818,267	1.57
Insurance	96,276	0.18	99,840	0.19
Depreciation and amortization	2,888,199	5.35	2,867,294	5.51
Professional services	245,469	0.45	276,315	0.53
Purchased services	558,876	1.03	594,892	1.14
Disaster recovery fees	11,365	0.02	25,648	0.05
Travel and entertainment	1,053,359	1.95	811,820	1.56
Advertising and promotion	797,841	1.48	768,458	1.48
Postage and freight	46,202	0.09	39,226	0.08
Donations	2,850	-	3,709	0.01
Miscellaneous	<u>237,830</u>	<u>0.43</u>	<u>300,586</u>	<u>0.57</u>
	<u>\$ 32,833,863</u>	<u>60.77 %</u>	<u>\$ 30,751,809</u>	<u>59.08 %</u>