



Financial Statements
September 30, 2020 and 2019
CU*NorthWest, Inc.

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Independent Auditor's Report

To the Board of Directors
CU*NorthWest, Inc.
Liberty Lake, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of CU*NorthWest, Inc., which comprise the balance sheets as of September 30, 2020 and 2019, and the related statements of operations, 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 audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CU*NorthWest, Inc. as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Spokane, Washington
November 24, 2020

CU*NorthWest, Inc.
Balance Sheets
September 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash	\$ 729,917	\$ 864,594
Certificates of deposit	200,000	-
Accounts receivable	522,467	374,546
Income taxes receivable	63,700	18,000
Note receivable from Site-Four, LLC	-	15,145
Prepaid expenses and other	77,515	59,809
Total current assets	1,593,599	1,332,094
Property and Equipment	509,284	115,784
Goodwill	120,000	120,000
Deferred Income Taxes	72,000	-
Other Assets		
Other receivable from related party	347,291	347,291
Investment in Site-Four, LLC	66,531	52,771
Note receivable from Site-Four, LLC	10,400	-
Certificates of deposit	-	200,000
Total other assets	424,222	600,062
	\$ 2,719,105	\$ 2,167,940

CU*NorthWest, Inc.
Balance Sheets
September 30, 2020 and 2019

	2020	2019
Liabilities and Stockholders' Equity		
Current Liabilities		
Current portion of capital lease obligations	\$ 25,503	\$ 24,338
Accounts payable	147,211	109,143
Accrued liabilities	147,698	86,042
Deferred revenue	24,459	86,398
	344,871	305,921
Long-term Liabilities		
Capital lease obligations, less current portion	23,083	48,586
Deferred compensation	77,473	45,415
Deferred rent	15,069	24,436
Deferred income taxes	-	21,000
	460,496	445,358
Stockholders' Equity		
Common stock; Class A, no par value; authorized 150 shares; issued and outstanding, 31 and 25 shares at September 30, 2020 and 2019, respectively	-	-
Common stock; Class B, no par value; authorized 1 share; issued and outstanding, 1 share	-	-
Additional paid-in capital	2,114,823	1,519,823
Retained earnings	143,786	202,759
	2,258,609	1,722,582
Total stockholders' equity	2,258,609	1,722,582
	\$ 2,719,105	\$ 2,167,940

CU*NorthWest, Inc.
Statements of Operations
Years Ended September 30, 2020 and 2019

	2020	2019
Revenue	\$ 5,090,892	\$ 4,711,630
Cost of Revenue	2,211,370	1,942,070
Gross Profit	2,879,522	2,769,560
Operating Expenses	3,096,829	2,845,703
Operating Loss	(217,307)	(76,143)
Other Income (Expense)		
Interest income	5,874	4,472
Interest expense	-	(120)
Equity in earnings of Site-Four, LLC	13,760	15,991
Total other income (expense)	19,634	20,343
Net Loss Before Income Taxes	(197,673)	(55,800)
Benefit from Income Taxes	138,700	10,043
Net Loss	\$ (58,973)	\$ (45,757)

CU*NorthWest, Inc.
 Statements of Stockholders' Equity
 Years Ended September 30, 2020 and 2019

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amounts			
Balance, September 30, 2018	22	\$ -	\$ 1,139,823	\$ 248,516	\$ 1,388,339
Net loss	-	-	-	(45,757)	(45,757)
Issuance of common stock	4	-	380,000	-	380,000
Balance, September 30, 2019	26	-	1,519,823	202,759	1,722,582
Net loss	-	-	-	(58,973)	(58,973)
Issuance of common stock	6	-	595,000	-	595,000
Balance, September 30, 2020	<u>32</u>	<u>\$ -</u>	<u>\$ 2,114,823</u>	<u>\$ 143,786</u>	<u>\$ 2,258,609</u>

CU*NorthWest, Inc.
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Operating Activities		
Net loss	\$ (58,973)	\$ (45,757)
Adjustments to reconcile net loss to net cash used for operating activities		
Depreciation	35,653	37,773
Equity in earnings of Site-Four, LLC	(13,760)	(15,991)
Deferred income taxes	(93,000)	(7,900)
Changes in assets and liabilities		
Accounts receivable	(147,921)	(75,122)
Prepaid expenses and other	(17,706)	(21,675)
Accounts payable	38,068	5,562
Accrued and other liabilities	22,408	(9,324)
Income taxes	(45,700)	(14,143)
Net Cash used for Operating Activities	(280,931)	(146,577)
Investing Activities		
Purchase of property and equipment	(429,153)	(31,763)
Purchase of certificates of deposit	-	(200,000)
Proceeds from certificates of deposit	-	200,000
Payments from note receivable	4,745	4,855
Net Cash used for Investing Activities	(424,408)	(26,908)
Financing Activities		
Payments on capital lease obligations	(24,338)	(18,843)
Issuance of common stock	595,000	380,000
Net Cash from Financing Activities	570,662	361,157
Net Change in Cash	(134,677)	187,672
Cash, Beginning of Year	864,594	676,922
Cash, End of Year	\$ 729,917	\$ 864,594
Supplemental Disclosure of Cash Flow Information		
Cash payments for		
Interest	\$ -	\$ 120
Income taxes	-	12,000
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Equipment additions under capital lease obligations	\$ -	\$ 83,535

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity

CU*NorthWest, Inc. (the Company) provides automated processing services for credit unions throughout the Northwest United States. The Company also markets a software product and provides support to customers. The Company is organized as a credit union service organization (CUSO) and a co-operative.

Concentrations of Credit Risk

The Company maintains its cash accounts in various deposit accounts, some of which are held at shareholder credit unions, the balances of which are periodically in excess of federally insured limits.

Certificates of Deposit

Certificates of deposit are recorded at cost, which approximates fair market value. The interest rate on the certificate is 2.6% and matures July 2021.

Receivables and Credit Policy

Trade receivables due from customers are uncollateralized customer obligations due under normal trade terms requiring payment within 15 days from the invoice date. Trade receivables are stated at the amount billed to the customer. The Company does not charge interest on overdue customer account balances. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The Company estimates an allowance for doubtful accounts based upon an evaluation of the current status of receivables, historical experience, and other factors as necessary. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. As of September 30, 2020 and 2019, there was no allowance for doubtful accounts.

The note receivable represents amounts from obligations due from a related party, Site-Four, LLC, which the Company is a stockholder, under extended payments terms exceeding one year. The note carries an interest rate of 2.0%, with payments applied first to unpaid interest balances and any remainder to the principal balance. The note matures on December 31, 2022. The Company evaluates the collectability of the balances based upon historical experience and the specific circumstances of individual notes, with an allowance for uncollectible amounts being provided if necessary.

The other receivable from related party consists of an obligation due from the Chief Executive Officer (CEO) under extended payment terms exceeding one year. The note carries no interest rate and amounts are forgiven as the CEO vests over time and fully vests on February 28, 2029, see Note 7.

Property and Equipment

Property and equipment is recorded at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income.

Depreciation is provided using the straight-line method, based on useful lives of the assets which range from three to seven years.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment at September 30, 2020 and 2019.

Goodwill

Goodwill represents costs in excess of purchase price over the fair value of the assets of businesses acquired, including other identifiable intangible assets.

Goodwill is not amortized, rather potential impairment is considered on an annual basis, or more frequently upon the occurrence of an event or when circumstances indicate that the amount of goodwill is greater than its fair value. As of September 30, 2020, the carrying value of the Company's goodwill was not considered impaired.

Investment in Site-Four, LLC

The equity method of accounting is used when the Company has a 20% to 50% interest in other entities. Under the equity method, original investments are recorded at cost and adjusted for the Company's share of undistributed earnings or losses of these entities. Nonmarketable investments in which the Company has less than a 20% interest, and in which it does not have the ability to exercise significant influence over the investee, are initially recorded at cost, and periodically reviewed for impairment.

Income Taxes

Income taxes are provided for the tax effects of transactions reporting in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of property and equipment, goodwill, and accrued expenses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of September 30, 2020 and 2019, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

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 Company from business done with their shareholders, and are allocated to individual shareholders based upon the volume of business done with the Company. There were no patronage dividends in September 30, 2020 and 2019.

Revenue Recognition

The Company recognizes revenues in the period in which services are rendered, or upon shipment of the product.

Deferred revenue consists of advance payments from customers, in the form of cash, for revenue to be recognized in the following years.

Sales Taxes

The Company recognizes revenue from product sales net of sales taxes. Cost of revenue includes sales taxes.

Advertising Costs

Advertising costs are expensed as incurred. Such costs were \$174,747 and \$231,601, respectively, for the years ended September 30, 2020 and 2019.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Company has evaluated subsequent events through November 24, 2020, the date which the financial statements were available to be issued.

Note 2 - Property and Equipment

Property and equipment at September 30, 2020 and 2019, consists of the following:

	<u>2020</u>	<u>2019</u>
Equipment	\$ 310,598	\$ 299,538
Software	15,259	15,259
Furniture and fixtures	<u>94,578</u>	<u>94,578</u>
	420,435	409,375
Software in progress	437,195	19,101
Less accumulated depreciation	<u>(348,346)</u>	<u>(312,692)</u>
	<u>\$ 509,284</u>	<u>\$ 115,784</u>

Depreciation expense totaled \$35,653 and \$37,773 for the years ended September 30, 2020 and 2019, respectively.

Note 3 - Investment in Site-Four, LLC

Investment in Site-Four, LLC is recorded on the equity method. The Company's share of net earnings from equity method investments, totaling \$13,760 in 2020 and \$15,991 in 2019, is included in other income in the accompanying financial statements.

Summary financial information for Site-Four, LLC as of September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Current assets	\$ 353,344	\$ 281,957
Land, buildings, and equipment	<u>37,355</u>	<u>68,637</u>
Total assets	<u>\$ 390,699</u>	<u>\$ 350,594</u>
Current liabilities	\$ 89,642	\$ 105,141
Noncurrent liabilities	21,931	45,600
Equity	<u>279,126</u>	<u>199,853</u>
Total liabilities and equity	<u>\$ 390,699</u>	<u>\$ 350,594</u>
Total revenue	\$ 899,459	\$ 872,278
Total expenses	<u>(871,230)</u>	<u>(818,795)</u>
Net income	<u>\$ 28,229</u>	<u>\$ 53,483</u>

Note 4 - Leases

The Company leases office space and equipment under various short and long-term leases. The leases expire at various dates through January 2023.

Future minimum lease payments are as follows:

<u>Years Ending September 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2021	\$ 27,293	\$ 127,993
2022	18,471	10,689
2023	5,410	-
	<u>51,174</u>	<u>\$ 138,682</u>
Total minimum lease payments	51,174	<u>\$ 138,682</u>
Less portion representing interest	<u>2,588</u>	
Present value of minimum lease payments	<u>\$ 48,586</u>	

Total lease expense for the years ended September 30, 2020 and 2019, totaled \$119,020 and \$124,149, respectively.

Leased property under capital leases at September 30, 2020 and 2019, includes:

	<u>2020</u>	<u>2019</u>
Equipment	\$ 93,615	\$ 93,615
Less accumulated amortization	<u>(47,037)</u>	<u>(22,079)</u>
	<u>\$ 46,578</u>	<u>\$ 71,536</u>

Note 5 - Related Party Transactions

The Company provides services to stockholders under the normal course of business. Revenue from stockholders was \$4,035,546 and \$3,527,873 during the years ended September 30, 2020 and 2019, respectively. Revenues from transactions with shareholders constituted 79% and 75% of total revenues during fiscal years 2020 and 2019, respectively. As of September 30, 2020 and 2019, amounts due from stockholders included in accounts receivable were \$406,782 and \$278,745, respectively.

Operational support services are provided to the Company by a stockholder. Services under this agreement include accounting management (through May 1, 2019), human resources (through February 1, 2019), and shared services which the Company incurred expenses of \$1,837,406 and \$1,728,117 for the years ended September 30, 2020 and 2019, respectively. The Company had accounts payable due to stockholders of \$124,987 and \$89,996 at September 30, 2020 and 2019, respectively.

Cash and certificates of deposit held at shareholder credit unions totaled \$929,917 and \$1,064,594 at September 30, 2020 and 2019, respectively.

Note 6 - Income Taxes

Deferred tax assets and liabilities consist of the following components as of September 30, 2020 and 2019:

	2020	2019
Deferred Tax Assets (Liabilities)		
Property and equipment	\$ (15,000)	\$ (20,000)
Goodwill	(25,000)	(24,000)
Deferred compensation	16,000	10,000
Net operating loss	30,000	13,000
R&D tax credits	66,000	-
	\$ 72,000	\$ (21,000)

The benefit from income taxes charged to income for the years ended September 30, 2020 and 2019, consists of the following:

	2020	2019
Currently refunded (payable)	\$ 41,700	\$ 2,143
Deferred	97,000	7,900
	\$ 138,700	\$ 10,043

The Company's effective income tax rate is higher than what would be expected if the federal statutory rate were applied to income from continuing operations primarily because of expenses deductible for financial reporting purposes that are not deductible for tax purposes. At September 30, 2020, net operating loss carryforwards were approximately \$140,000.

Note 7 - Employee Benefit Plans

Deferred Compensation Plan

In May 2018, the Company entered into an employee retention agreement (the “agreement”) with the Chief Executive Officer (CEO). The Company agreed to purchase a loan for a property owned by the CEO in an amount of \$347,291, recorded as an other receivable from related party at September 30, 2020 and 2019. The CEO will vest in reductions in the obligation owed through continued service, becoming 25% vested on February 28, 2021, 70% vested on February 28, 2026, and becoming fully vested on February 28, 2029. As the CEO is vested at 25%, 70%, and fully vested, the other receivable from related party will offset with the deferred compensation liability. In the event that the CEO does not remain employed by the Company for cause, the Company will be entitled to payment for the unvested obligation. The obligation under the agreement was \$77,473 and \$45,415, included in deferred compensation liability at September 30, 2020 and 2019, respectively. The expense attributable to the agreement due to vesting, included in operating expense, was \$32,057 during the years ended September 30, 2020 and 2019.

Defined Contribution Plan

The Company has a defined contribution plan covering substantially all employees. The plan provides that employees over the age of 21 and who attain one year of service are eligible for profit-sharing contributions. Employee contributions are matched up to 100% of the employee contribution, not in excess of 3% of employee compensation, plus 50% of the amount that exceeds 3% of compensation but does not exceed 5% of compensation. The Company has the option to make additional discretionary contributions as authorized by the Board. Total expenses related to the plan for the years ended September 30, 2020 and 2019, was \$51,129 and \$31,532, respectively.

Note 8 - Contingencies

During 2020, the world-wide coronavirus pandemic impacted national and global economies. The Company is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and full impact to the Company is not known.