

CU*NORTHWEST, INC.

FINANCIAL STATEMENTS

September 30, 2017 and 2016

CU*NORTHWEST, INC.
Liberty Lake, WA

FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
CU*Northwest, Inc.
Liberty Lake, WA

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, 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.

(Continued)

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, 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.

Crowe Horwath LLP

Crowe Horwath LLP

Grand Rapids, Michigan
November 14, 2017

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

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash	\$ 1,152,662	\$ 1,037,378
Accounts receivable	252,750	367,129
Accounts receivable - related party (Note 7)	19,438	9,201
Income taxes receivable (Note 3)	26,401	-
Prepaid expenses and other assets	<u>46,355</u>	<u>44,157</u>
Total current assets	1,497,606	1,457,865
Property and equipment		
Equipment	237,838	233,056
Furniture and fixtures	91,365	91,365
Software	<u>9,847</u>	<u>-</u>
	339,050	324,421
Less accumulated depreciation	<u>(272,483)</u>	<u>(230,725)</u>
	66,567	93,696
Other assets		
Investment	26,175	15,190
Note receivable (Note 4)	20,000	20,000
Goodwill	<u>120,000</u>	<u>120,000</u>
	<u>166,175</u>	<u>155,190</u>
	<u>\$ 1,730,348</u>	<u>\$ 1,706,751</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable - trade	\$ 13,196	\$ 14,267
Accounts payable - related party (Note 7)	77,300	70,500
Current portion of capital lease obligation (Note 6)	201	2,354
Patronage dividend payable	125,000	255,000
Income taxes payable (Note 3)	-	61,116
Other liabilities	<u>220,668</u>	<u>142,857</u>
Total current liabilities	436,365	546,094
Long-term liabilities		
Capital lease obligation	-	201
Deferred rent	30,229	28,540
Deferred income taxes (Note 3)	<u>27,200</u>	<u>19,000</u>
	57,429	47,741
Stockholders' equity		
Common stock; Class A, no par value; 150 shares authorized; shares issued and outstanding: 20 and 19 at September 30, 2017 and 2016, respectively.	-	-
Common stock; Class B, no par value; 1 share authorized; 1 share issued and outstanding at September 30, 2017 and 2016	-	-
Additional paid-in capital	1,026,706	954,706
Retained earnings	<u>209,848</u>	<u>158,210</u>
	<u>1,236,554</u>	<u>1,112,916</u>
	<u>\$ 1,730,348</u>	<u>\$ 1,706,751</u>

See accompanying notes to financial statements.

CU*NORTHWEST, 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>
Revenues	\$ 3,805,409	100.00 %	\$ 4,069,036	100.00 %
Cost of goods sold	<u>1,306,528</u>	<u>34.33</u>	<u>1,342,951</u>	<u>33.00</u>
Gross margin	2,498,881	65.67	2,726,085	67.00
Operating expenses	<u>2,320,993</u>	<u>60.99</u>	<u>2,334,579</u>	<u>57.37</u>
Income before other income (expense), patronage dividends and income taxes	177,888	4.68	391,506	9.63
Other income (expense)				
Interest income	6,150	0.16	1,376	0.03
Interest expense	(63)	-	(161)	-
Income on investment	<u>10,985</u>	<u>0.29</u>	<u>4,815</u>	<u>0.12</u>
	<u>17,072</u>	<u>0.45</u>	<u>6,030</u>	<u>0.15</u>
Income before patronage dividends and income taxes	194,960	5.13	397,536	9.78
Patronage dividends	<u>125,000</u>	<u>3.28</u>	<u>255,000</u>	<u>6.27</u>
Income before provision for income taxes	69,960	1.85	142,536	3.51
Provision for income taxes (Note 3)	<u>18,322</u>	<u>0.48</u>	<u>51,508</u>	<u>1.27</u>
Net income	<u>\$ 51,638</u>	<u>1.37 %</u>	<u>\$ 91,028</u>	<u>2.24 %</u>

See accompanying notes to financial statements.

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

	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, October 1, 2015	\$ 790,505	\$ 67,182	\$ 857,687
Redemption of common stock	(95,299)	-	(95,299)
Issuance of common stock	259,500	-	259,500
Net income	<u>-</u>	<u>91,028</u>	<u>91,028</u>
 Balance, September 30, 2016	 954,706	 158,210	 1,112,916
Issuance of common stock	72,000	-	72,000
Net income	<u>-</u>	<u>51,638</u>	<u>51,638</u>
 Balance, September 30, 2017	 <u>\$ 1,026,706</u>	 <u>\$ 209,848</u>	 <u>\$ 1,236,554</u>

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Net income	\$ 51,638	\$ 91,028
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	41,756	50,558
Gain on investment	(10,985)	(4,815)
Deferred income taxes	8,200	(600)
Change in assets and liabilities		
Accounts receivable	114,379	50,955
Accounts receivable - related party	(10,237)	25,628
Income taxes	(87,517)	38,440
Prepaid expenses and other assets	(2,198)	(17,076)
Accounts payable	(1,071)	(17,013)
Accounts payable - related party	6,800	38,246
Other liabilities	<u>(50,500)</u>	<u>182,291</u>
Net cash from operating activities	60,265	437,642
 Cash flows used in investing activities		
Purchases of equipment and software	<u>(14,627)</u>	<u>(11,038)</u>
Net cash used in investing activities	(14,627)	(11,038)
 Cash flows from financing activities		
Payments on capital lease obligations	(2,354)	(2,256)
Proceeds from issuance of common stock	72,000	259,500
Payments on redemption of common stock	<u>-</u>	<u>(95,299)</u>
Net cash from financing activities	<u>69,646</u>	<u>161,945</u>
 Net change in cash	115,284	588,549
 Cash at beginning of year	<u>1,037,378</u>	<u>448,829</u>
 Cash at end of year	<u>\$ 1,152,662</u>	<u>\$ 1,037,378</u>
 Supplemental disclosure of cash flow information		
Cash paid during the year for		
Interest	\$ 63	\$ 161
Income taxes	108,086	13,668

See accompanying notes to financial statements.

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

NOTE 1 - NATURE OF BUSINESS

Nature of Business: 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. Revenue is recognized based on the number of members for each of its credit union customers as services are performed. Additionally, the Company receives revenue from sales of certain software and computer hardware products as they are sold. The Company 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 includes cash equivalents which are demand deposit accounts, savings accounts, money market accounts and instruments purchased with a maturity of three months or less. The Company frequently has deposits in excess of \$250,000 at various financial institutions, some of which are also shareholders.

Accounts Receivable: The Company 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.

Advertising Costs: The Company expenses advertising costs as incurred. Advertising costs for the years ended September 30, 2017 and 2016 were \$65,878 and \$100,920, 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 which generally range from three to seven years. 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. The Company reviews property and equipment 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.

Goodwill: Goodwill resulted from a business acquisition in prior years and represents the excess of the purchase price over the fair value of the acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment, and any such impairment will be recognized in the period identified. Management has determined that goodwill was not impaired at September 30, 2017 and 2016.

Escalating Base Rent: The Company 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 liability for deferred rent is recorded as a long-term liability.

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.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: The Company 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 Company 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 Company 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 Company is no longer subject to examination for federal tax years before 2013 and for state income taxes before 2012. The Company 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 assets on the balance sheet were decreased by \$4,100 for September 30, 2016 and reported long term liabilities on the balance sheet were decreased by \$4,100 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. Actual results could differ from those estimates.

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 14, 2017, the date the financial statements were available for issuance and has determined that there are no subsequent events to disclose.

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on net income or the retained earnings.

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

NOTE 3 - INCOME TAXES

The provision (benefit) for income taxes consists of the following:

	<u>2017</u>	<u>2016</u>
Current income tax expense	\$ 10,122	\$ 52,108
Deferred income tax (benefit) expense	<u>8,200</u>	<u>(600)</u>
	<u>\$ 18,322</u>	<u>\$ 51,508</u>

Deferred tax assets and liabilities are as follows:

	<u>2017</u>	<u>2016</u>
Deferred tax assets	\$ 1,100	\$ 7,700
Deferred tax liabilities	<u>(28,300)</u>	<u>(26,700)</u>
	<u>\$ (27,200)</u>	<u>\$ (19,000)</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 accumulated depreciation, accumulated amortization and accrued expenses.

NOTE 4 - NOTE RECEIVABLE

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.

NOTE 5 - INVESTMENT

On July 1, 2012, the Company purchased one Class B Unit of Site Four, LLC for \$25,000 representing a 20% ownership interest. This investment is accounted for under the equity method. The Company recorded income of \$10,985 and \$4,815 related to this investment in the years ended September 30, 2017 and 2016, respectively.

NOTE 6 - LEASE COMMITMENTS

The Company is obligated under a capital lease agreement for a copier. Lease payments are generally due monthly and expire at various dates through October 2017. The copier recorded under a capital lease amounts to the following:

	<u>2017</u>
Equipment	\$ 9,046
Accumulated depreciation	<u>8,887</u>
	<u>\$ 159</u>

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CU*NORTHWEST, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - LEASE COMMITMENTS (Continued)

The Company also leases its facility and certain equipment under noncancelable operating lease agreements expiring on various dates. Rent expense was \$121,367 and \$122,470 for the years September 30, 2017 and 2016, 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>
2018	\$ 115,570	\$ 201
2019	119,805	-
2020	124,623	-
2021	127,993	-
2022	<u>10,689</u>	<u>-</u>
Total minimum lease payments	<u>\$ 498,680</u>	201
Less amounts representing interest		<u>-</u>
		201
Current portion of capital lease obligation		<u>201</u>
Long term portion of capital lease obligation		<u>\$ -</u>

NOTE 7 - RELATED PARTY TRANSACTIONS

Operational support services are provided to the Company by a stockholder and renewed on an annual basis. Services under this agreement include accounting management, human resources, and shared services which the Company incurred expenses of approximately \$88,210 and \$80,210 for the years ended September 30, 2017 and 2016, respectively. The Company provides services to this stockholder in the normal course of business. Sales were approximately \$556,246 and \$460,391 during the years ended September 30, 2017 and 2016, respectively. At September 30, 2017 and 2016, amounts due from this stockholder included in accounts receivable - related party were \$19,438 and \$9,201, respectively. The Company also had accounts payable due to this stockholder of \$77,300 and \$70,500 at September 30, 2017 and 2016, respectively

The Company provides services to all of its shareholders. Revenues from transactions with shareholders constituted 75% and 67% of total revenues during fiscal 2017 and 2016, respectively. At September 30, 2017 and 2016, 69% and 65%, respectively, of the Company's accounts receivable were from its shareholders. Cash and cash equivalents held at shareholder credit unions totaled approximately \$1,152,662 and \$1,037,378 at September 30, 2017 and 2016, respectively.