D·C·I

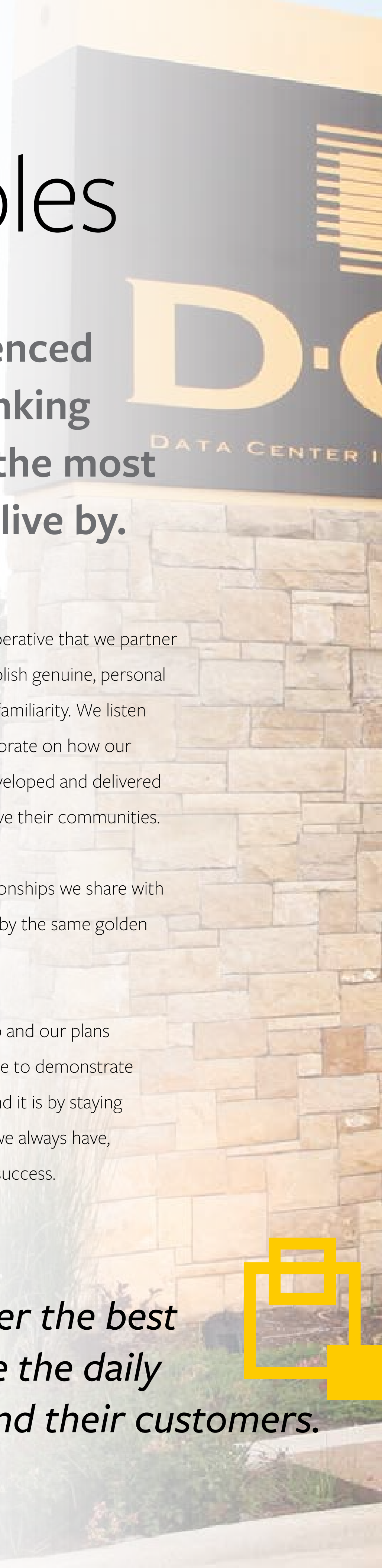
DATACENTERINC.COM

# Annual Report

2019

# Banking on Principles

**DCI is among the most stable, experienced and innovative developers of core banking technology in the U.S.—and perhaps the most trusted, because of the principles we live by.**




The quality of our award-winning technology is undeniable, from our intuitive and open iCore360 software to our industry-leading digital solutions for Internet/mobile banking and more. But DCI stands alone in the industry because of the unique principles that define the heart of our company and the relationships we share with our clients—principles like fairness, integrity, cooperation, personal service, transparency and safety.

These principles have been in place since the day four bankers collaborated to form DCI in 1963. And today DCI is still privately-owned by a group of clients with customers serving as board members and active user-group leaders. As such, we believe we have a personal interest and obligation to ensure our service and support is impactful to our clients' success.

This is why we consider it imperative that we partner with our customers and establish genuine, personal relationships with first-name familiarity. We listen to what they need and collaborate on how our products and services are developed and delivered to help them successfully serve their communities.

For nearly 60 years, the relationships we share with our clients have been guided by the same golden rule principles.

Our accomplishments in 2019 and our plans for 2020 and beyond continue to demonstrate the value of this approach. And it is by staying true to these principles that we always have, and always will, measure our success.

*Our principles drive our purpose, to deliver the best digital solutions and services that improve the daily endeavors and prosperity of our clients and their customers.*

## DCI Principle:

# Customer Focused Leadership


— John Jones
President & CEO

— Sarah Fankhauser
EVP & COO

# Message from the Chairman

**DCI finished the decade strong and secure, with a very productive and prosperous 2019. Enthusiastic sales activity, infrastructure improvements, strategic investments and advancements in iCore360 and digital channels all set the stage for record-breaking profits and a bright future.**

## Financial Highlights

Gross Revenue finished at $33.3M, a 7.7% increase over 2018 and the highest revenue in the company's history. Operating Income improved 17.7% to finish at $2.7M and Net Income rose 14.1% to end the year at $2.5M.

Processing Revenue increased 6.6% from new banks converting to iCore360 and strong organic growth from our existing customers, while card revenues gained 11.2% as debit card usage and transaction volumes continue to rise.

Revenue from Internet and mobile banking increased significantly, with both solutions included in every new client contract signed in 2019, along with a number of existing customers that moved to our digital applications as their previous third-party contracts expired. More DCI clients now use our digital applications than other third parties, and we expect this trend to grow in 2020.

For our shareholders, DCI net book value per share increased $23.86 in 2019, finishing the year at $292.23, with declared dividends totaling $6 per share and a total of $623K returned to our shareholders. DCI has now returned over $9.6M in capital to our shareholders since 2004.

## Business Highlights

In the second half of 2019 we closed more new core sales and created a deeper pipeline than in any previous 6-month period, bringing DCI new customers from more states than ever before and creating the momentum to do more of the same in 2020.

With our existing client relationships, we once again secured a 100% renewal rate and contracted to deliver 318 new/upgraded DCI services for an increase of $699,000 in one-time revenues and $626,000 in recurring annual fees. And we continued to maintain a customer satisfaction and service record our competitors cannot match.

2019 was also a significant success in our technological advancement. Most notably, we built a new state-of-the-art data center in an underground cavern near Kansas City to provide an unprecedented breadth of future resiliency, performance, security and innovation. With our digital banking solutions now fully migrated to the new center, our iCore360, card and corporate infrastructures will follow in 2020.

Our software engineers also implemented an astounding array of product enhancements, from new efficiencies for loan management, wires, branch capture and card balancing to completely new Internet banking and visually-enhanced statements. 2020 plans include a complete redesign for our mobile banking solution and more.

## DCI Principle:

## Success Driven by Relationships

### The Look Forward

We're proud of the dramatic progress we made in 2019 and anticipate 2020 will be equally positive, exciting and productive. DCI continues to succeed and lead as a digital-forward provider in fintech and core technology because of the strong bank-core relationship principles that have guided us all along: personal, responsive service, fair and transparent business practices, quality technology and a commitment to put people before profits. We express our deepest gratitude to our customers for their loyalty and long-term support.

— Keith Hughes
Chairman of the Board and DCI Client

# Customer Care

**Our commitment to excellent customer service principles is one reason we renewed 100% of our core contracts, added 318 new client services and achieved an overall 93% customer satisfaction rating in 2019.**

**Service and Support, Provided by Real People**

The #1 principle we live by is to treat our customers like family and give them nothing less than the best experience possible. It is part of our DNA and nothing else ever has been, or will be, more important to us.

One way we strive to meet this mandate is to ensure that any time a customer contacts DCI for support—whether by phone, email, chat, web request or otherwise—they personally connect with a live, helpful team member, never a machine; day in and day out, seven days a week, 365 days a year.

In 2019, our customer care specialists resolved 80% of all inquiries on the first contact. And if we needed to follow up, we did so within our hour guarantee, always striving for a goal of 30-minutes or less, and achieving a 10-minute average response time. This high-response service spans all areas of DCI, from our executives and relationship managers to our product specialists and the certified technical engineers available around the clock to help with any hardware or software issues.

And to ensure the security of those customer communications, we implemented enhanced authentication features to protect DCI and our customers from the risk of social engineering attacks and other fraud.

**Personal Visits to Stay in Touch**

Exemplifying our principles for high customer care are our non-sales customer relationship managers who, in addition to daily phone and email contact, proactively visit each core client for one-on-one, on-site meetings as least once a quarter.

These proactive visits—often with DCI executives or technical experts in attendance—provide the opportunity to gather requests, exchange ideas, strategize, and discuss new products or features available, with detailed reports shared company-wide to make sure each client is getting the service and support they need.

This more personal, face-to-face interaction and follow up with customers is one reason our relationship managers were able to renew 100% of the customer contracts up for renewal, and bring 318 new DCI products and services to DCI clients in 2019.

## DCI Principle:

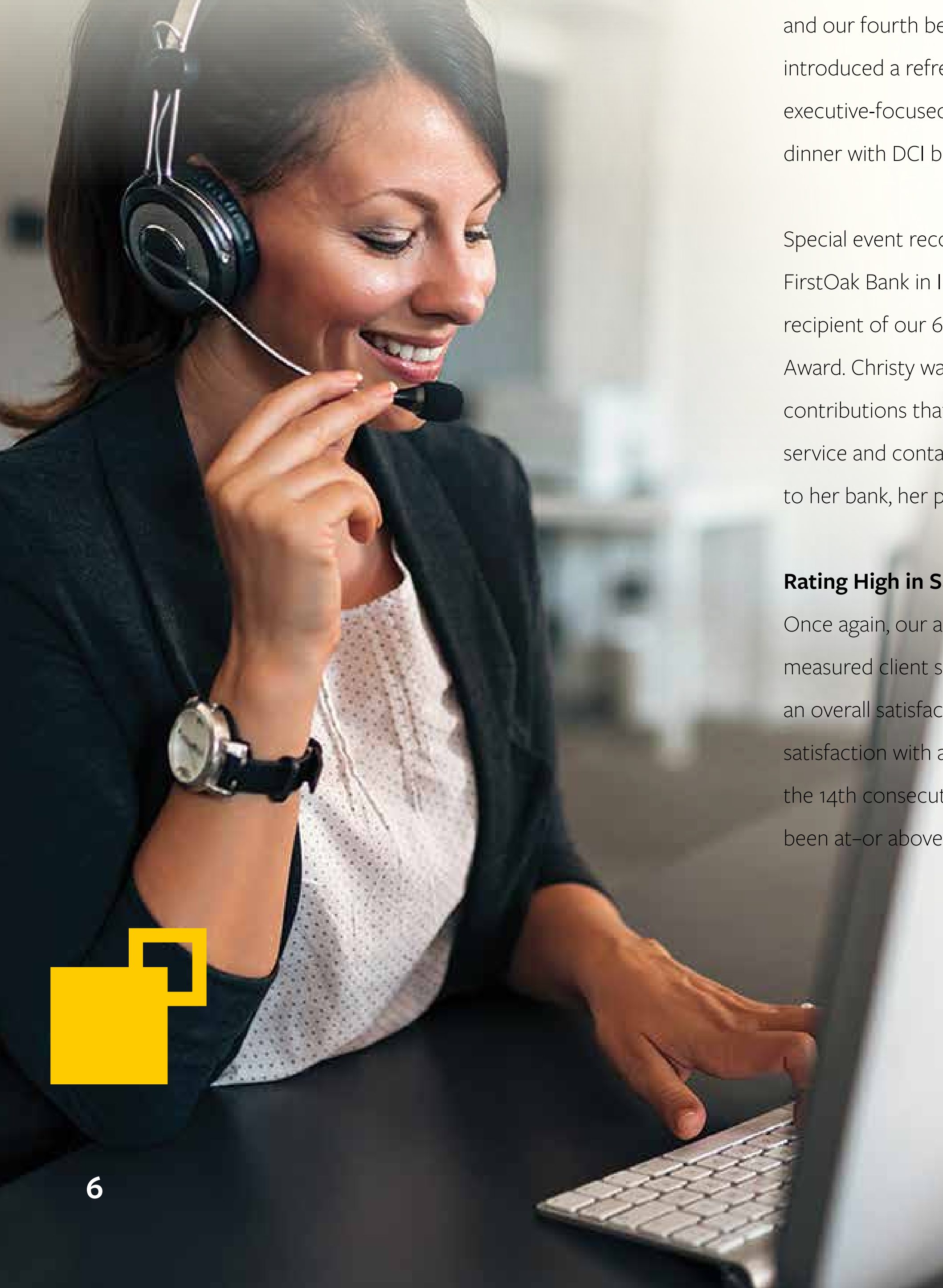
### Personal, Responsive Attention

*“DCI gives us the personal service we need day in and day out to compete and deliver personal service and attention to our customers.”*

**Randall M. Robey**
EVP & CFO, The Peoples Bank, MD

### Attention to Detail Creates Big Value

Our professional services team was also on the move in 2019 with an energetic schedule of new core and eBanking client conversions, mergers, and helping clients install new products and services. In addition, they completed several dozen operational reviews that provide clients with an in-depth analysis of day-to-day bank operations and key recommendations to help them maximize their iCore360 investment to improve proficiency, service, and profitability.



DCI clients also took advantage of several new on-site training sessions, hosted webinars and WebEx meetings conducted by our education professionals in 2019, who also added many new training tutorials to our on-demand DCI University library in iCore360, including instruction on Analytics, Loan Portfolio Management, Branch Capture, and all 2019 iCore360 enhancements.

In September, we hosted our 2019 Annual Bankers Conference, with our largest participation of exhibitors and sponsors ever, and our fourth best customer attendance in 23 years. We introduced a refreshed president/CEO itinerary, which included executive-focused sessions with industry experts and a private dinner with DCI board and executive leadership.

Special event recognition went to Christy Mavers, VP of FirstOak Bank in Independence, KS, who was named the recipient of our 6th annual Nation Meyer Innovative Banker Award. Christy was nominated by her peers for the invaluable contributions that her banking operations expertise, volunteer service and contagiously bright, positive attitude have brought to her bank, her peers and her community.

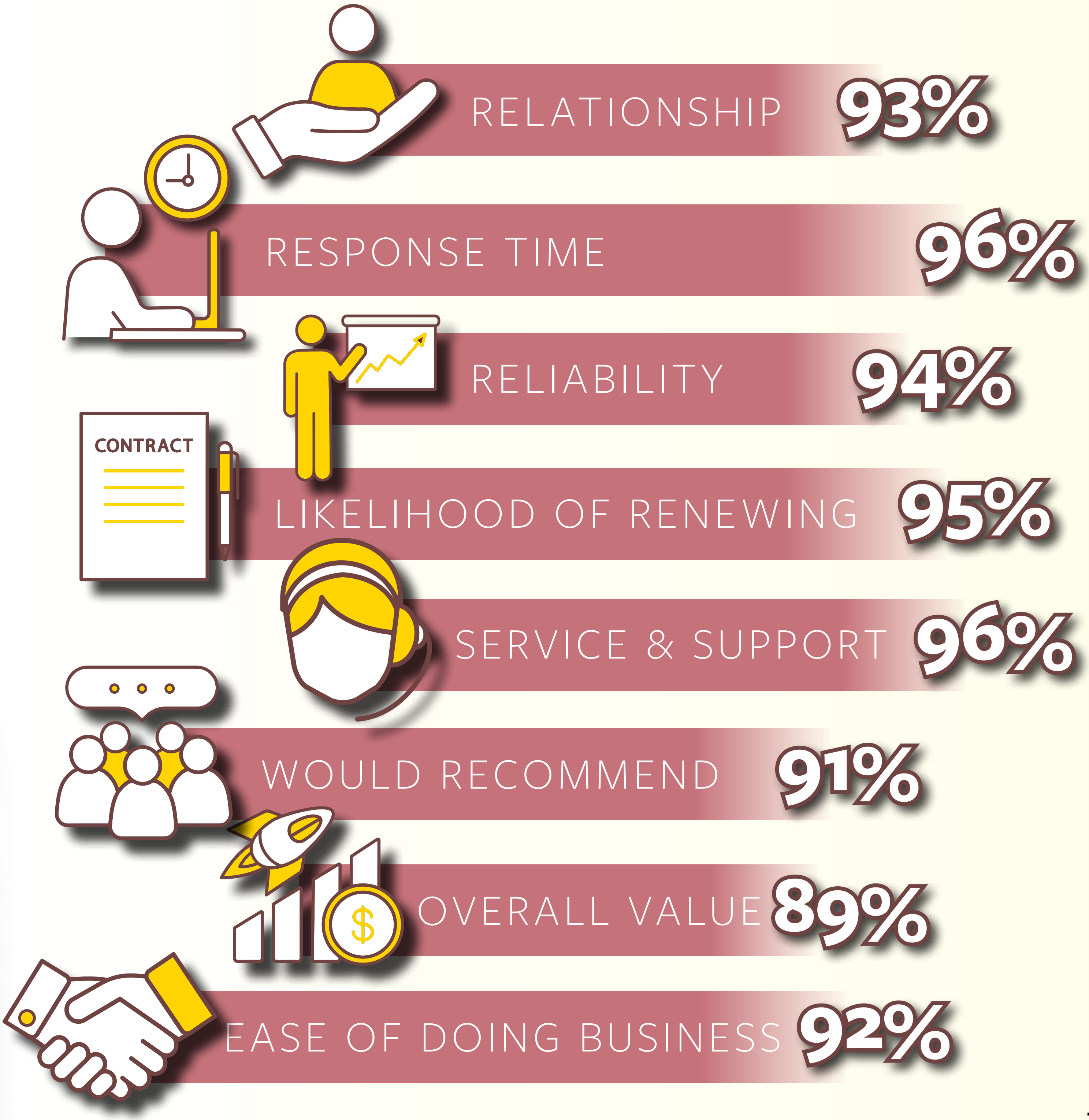
### Rating High in Satisfaction

Once again, our annual fall customer satisfaction survey measured client satisfaction on 33 different metrics, with an overall satisfaction rating of 93% and 74% rated their satisfaction with a perfect score of 100%! This represents the 14th consecutive year our satisfaction ratings have been at–or above–90%.

## DCI Principle:

### Personal Commitment to Customer Satisfaction

These results prove the value of the principles and intense priority we place on the personal, responsive and collaborative relationships we build with our customers. And we enter 2020 striving to deliver an even better DCI experience for every single one of them.



# Research & Development

## Customer-directed initiatives led an ambitious year of open development for iCore360, digital banking, strategic partnerships and even bigger plans in 2020.

**Purpose-Driven Innovation**

Our DCI research and development principles require that any new innovation or enhancement project we undertake must have a tangible, direct benefit to our clients and their customers, be open and transparent, and provide full, open access to their data. We continuously evaluate emerging technologies, regulatory impacts, industry trends, third-party solutions and other industries for inspiration, but it is the knowledge we gain listening and collaborating with our customers through one-on-one consultations and semi-annual user group meetings that directs our trajectory and ensures our focus stays centered on the daily working requirements of our customers. As a result, more than half of the innovations and enhancements released in 2019 came directly from user group requests.

We added several significant iCore360 product enhancements in 2019. Among the most notable were the finalization of our loan portfolio management features and dozens of new workflow efficiencies and automations including new wire templates, online card balancing, streamlined branch capture and more.

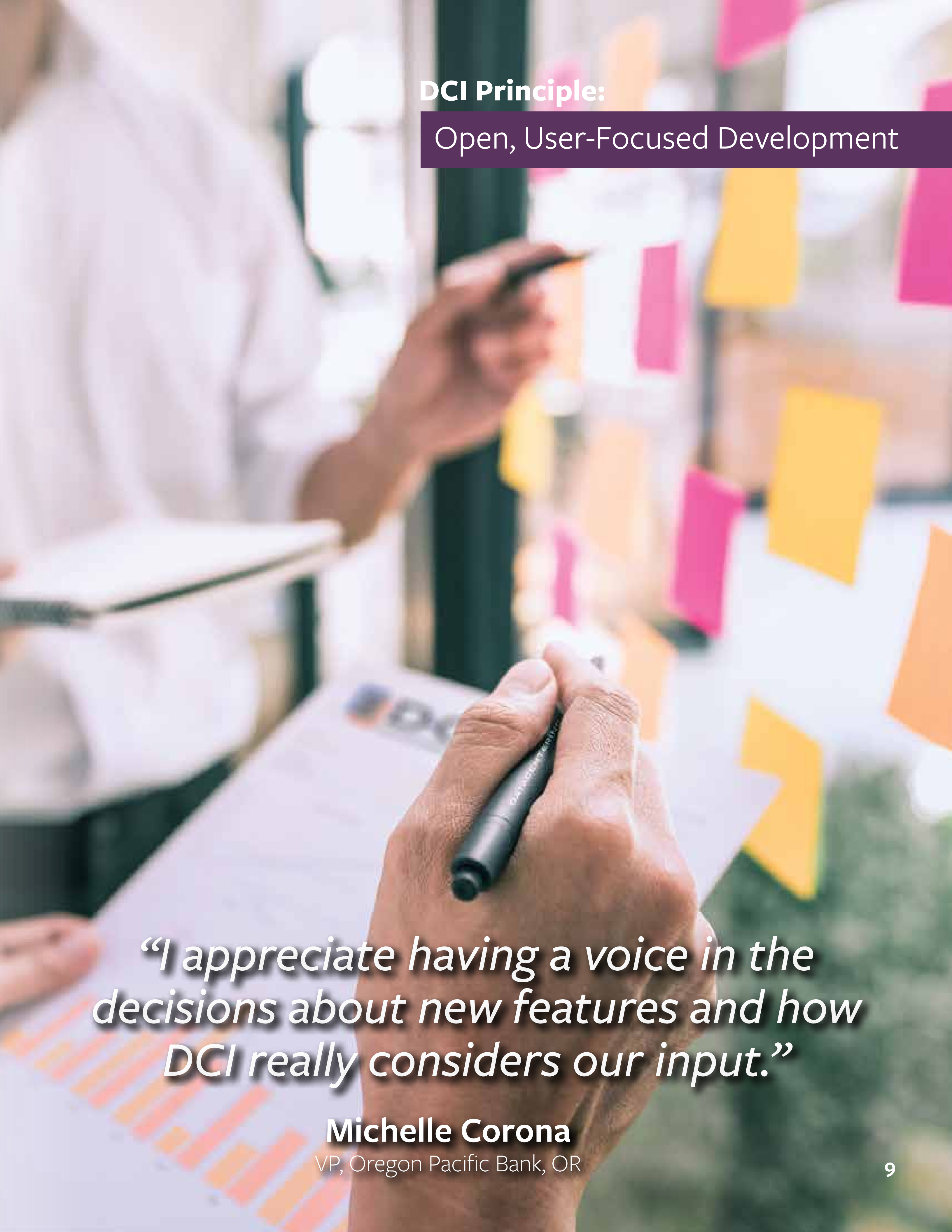
We also unveiled bold, newly enhanced and customizable statements for our core clients, with further enhancements scheduled to release in 2020.

By year's end, we were already pushing toward 2020 iCore360 initiatives including document imaging upgrades and the highly-anticipated loan origination features.

**Big Impact from Big New Designs**

We also released our most ambitious, complete redesign of our digital online banking solutions ever, with expansive improvements in design, security, functionality and performance, including new features for multi-device responsiveness and streamlined updating. Since its release, this new redesign has garnered rave reviews from both existing and prospective clients. A complete redesign of our mobile banking is expected in early 2020.

Our CMS website hosting platform implemented new development processes and staffing to enable broad enhancement possibilities in 2020 while we migrated the entire platform to our new data center and continued to add several new hosted client sites.



**DCI Principle:**

## Open, User-Focused Development

*"I appreciate having a voice in the decisions about new features and how DCI really considers our input."*

**Michelle Corona**
VP, Oregon Pacific Bank, OR

**DCI Principle:**

# Open APIs, Open Data Access, Open 3rd Parties

**New Digital Strategies for a Competitive Edge**

New strategic partnerships also brought noteworthy new capabilities to help DCI clients compete in the swiftly-changing digital world. Among the most significant is our alliance with The Clearing House, setting the stage for integrating their real-time payment capabilities and iCore360 to clear and settle payments immediately, along with other capabilities for faster, safer, and smarter digital commerce.

And our partnership with Vetter creates new, unique capabilities for DCI clients to easily find, persuade and digitally onboard new customers in 90 seconds via a unique new turnkey, strategic growth platform, greatly expanding our customers' potential reach and profitability.

*"Customer support has always been outstanding."*

**Adam Otto**

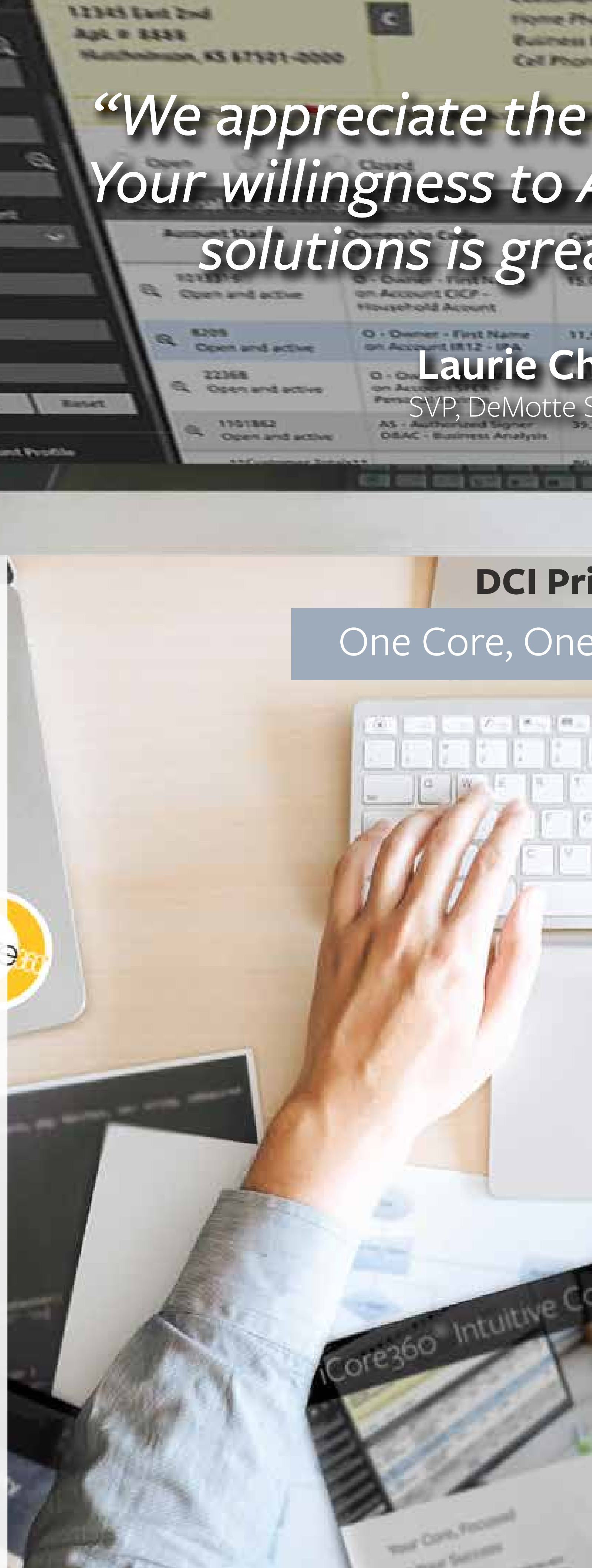
VP & Manager, The First National Bank of Hutchinson, KS

For 2020, development projects include branch capture updates for enhanced document identification and recognition; a complete redesign of teller software solutions; enhanced PCI-certified architecture and development methodologies; document imaging workflow enhancements; web application scanning and inspection; and full migration of all iCore360 processing systems to our new, state-of-the-art underground caverns data center.

As always, our future upgrades and strategic enhancements will be measured by our commitment to the principles of open, collaborative development that ensures DCI provides technologies that are not only the most advanced, but also the most meaningful to our family of clients.

## 2019 iCore360 Highlights:

- Loan Portfolio Management
- Completely Redesigned, Customizable Statements
- Increased Card Security
- Customer Support Cybersecurity
- Enhanced Interfaces and Workflows for:
  - *General Ledger*
  - *Account Opening*
  - *Tickler*
  - *Escrows*
  - *Account Origination*
  - *Branch/Merchant Capture*
  - *Document Capture/Imaging*
  - *Outgoing Wire Templates*
  - *Freddie Mac Reporting*
  - *BSA Risk Assessment*
  - *Email Fraud Alerts*
  - *ATM Terminal/Acquirer*
  - *Online Card/Account Posting*



*DCI ‘can do’ attitude.*
*ALWAYS help and find*
*atly appreciated.”*

**ambers**
State Bank, IN

**inciple:**

Release for All



## 2020 iCore360 Initiatives:

- New Loan Origination with Custom Workflows
- Real-Time Payments
- End-to-End Online Deposit Account Opening
- Automated Visa/Mastercard Account Updates
- Enhanced Branch Capture Document Recognition
- Expanded Data Imports and Reporting for Teller, BSA, Proof21
- New CMS Website Features
- New Quick Internal Transfers
- Keep Alive Function to Reduce Inactivity Timeouts
- Dual Interface Cards with EMV, Mag Stripe and Antenna
- State Right to Cure Notices
- Card Transaction Authorization
- Investor Payoff Adjustment
- Custom Loan Level Fields
- GL Screen Enhancements

## 2019
## eBanking Highlights:

- Complete Redesign with Sweeping Improvements to Overall Visual Design, Functionality, Security and Performance
- Complete Migration to New State-of-the-Art Underground Data Center
- New Administrator User Assist Functionality
- Same Day, Auto-Enrollment for Mobile Customers
- Google Authenticator Option for Out-Of-Band and High-Risk Transactional Authentications
- Increased Security for Card Services And Features
- International and Domestic Wire Transfer Enhancements
- Single Sign-On Access to CC21 Merchant Capture

## 2020
## eBanking Initiatives:

- Visual Redesign and Enhancements for Mobile Banking and Administrators
- Expanded Account Alert Options
- Account Status Options
- Secondary User Administration
- P2P Payments via RTP Network
- Digital Card and Mobile Wallet Onboarding
- iPay Enhancements
- Expanded ATM Terminal/ Acquirer Features
- Enhanced Reporting and Card Controls
- Apple Watch Capability on iOS

**DCI Principle:**

## Free Release Updates

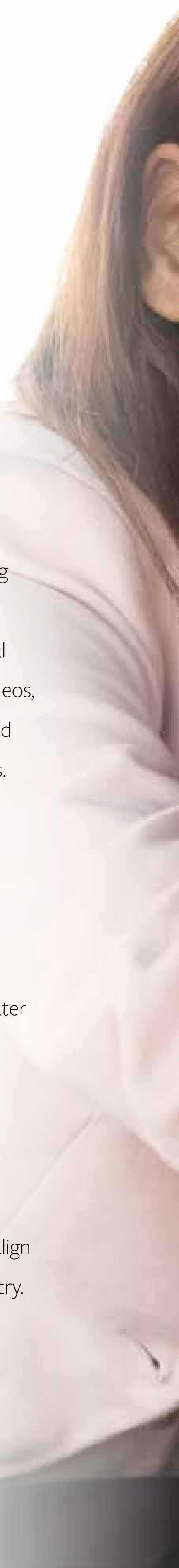

*“Outstanding customer service.”*

**Dan Harris**

SVP & Trust Officer, The Fidelity State Bank & Trust Company, KS

# Sales & Marketing

**The DCI sales team pursued an aggressive agenda in 2019, resulting in the best overall 12-month performance in years, proving the value in fair, transparent contracts.**



### Sales Broaden Nationwide Reach

The DCI sales and marketing team closed more new core contracts in the second half of 2019 than in any previous 6-month period, and the best overall 12-month performance in years, as more banks recognize the value of our private bank ownership and principles for fair, transparent contracts and responsive communication.

With new sales representatives and support staff, our teams worked to strengthen and expand our reach nationally, adding new core clients from Ohio, Texas, Kansas, Oklahoma, Alabama, South Dakota and Maryland—many with extended, long-term contracts—and significantly increased our pipeline of prospective core customers for 2020 and beyond.

We also added many new digital Internet/mobile clients and some former DCI core clients who returned to the DCI family after less satisfying experiences elsewhere. These renewed relationships are especially meaningful to us and prove that the principles we practice for fairness, transparency and personal, responsive service truly make a difference.

### Promoting the DCI Difference

These results were bolstered by the ongoing marketing efforts to broadcast the DCI message and principles nationwide and generate leads through targeted digital advertising, industry trade shows, new promotional videos, direct marketing, expanded social media campaigns and executive speaking engagements and media interviews.

And in 2020 we will partner with Mastercard to implement free marketing campaigns for clients, introduce new promotional videos and expand our advertising, media, and direct marketing coverage, including our social media exposure to generate greater interest and following for DCI.

Additionally, DCI executives met with the ABA Core Platforms Committee to discuss their projects for improving bank-core relationships and standards and share how the principles DCI has practiced for years align with their aspirations and differentiate us in the industry.

## DCI Principle:

# Fair, Transparent and Coterminous Contracts

**Growing Recognition, Growing Potential**

DCI was also, once again, recognized as a top financial technology provider, with its ranking in the 16th annual IDC Financial Insights FinTech Top 100 companies. This ranking is the latest recognition for DCI in an ever-expanding acknowledgment of the company's achievements and expertise in banking technology.

We look forward to a strong sales performance in 2020 as we begin a new decade and introduce the DCI story to an active and growing pipeline of potential customers. By staying true to our principles for fair, transparent contracts, personal service and modern, open technologies, we'll continue to gain new customers across the country who are ready for an innovative, reliable and stable partner they can trust.

*"DCI is a trusted partner. They provide outstanding services and make us feel valued and important."*

**Karen Pjesky**
VP & CFO, The Halstead Bank, KS

# Systems & Operations

**In 2019, DCI engineers invested the most extensive resources in years to advance the capability, readiness, stability and security of our infrastructure systems, a basic principle DCI brings to every client relationship.**

**Multi-Million Dollar Migration**

Last year our network and systems engineers again worked tirelessly across our entire enterprise to ensure the readiness and security of our infrastructures. The most significant of these efforts was preparing our migration to an entirely new, industry-leading and environmentally-protected, level-5 secure data center located in an underground cavern near Kansas City.

When fully complete, the multi-million-dollar migration to this new data center will provide our clients with the greatest-ever scope of capabilities for system performance, readiness, redundancy, expansion and hardened security for years to come. In 2019 our DCI engineers completed the first phase of migrating all digital eBanking and CMS web hosting services to the new infrastructure—immediately improving those service capabilities and efficiencies—and laying the groundwork for the second, most extensive phase of migrating all remaining iCore360 and other system processes to the new facility in 2020.

DCI technicians also implemented extensive architecture changes to achieve new levels of "hot/warm" backup and recovery capabilities to both maintain and replicate data—in near-real time—in our Oklahoma City site. Nearly 30 customer banks participated in a simulated disaster exercise last fall to help test our new recovery environment with excellent results.

**System Upgrades Increase Security**

Internally, we implemented several additional security controls in 2019, including expanded data backup and encryption, new PCI and EMV certifications and new authentication measures to reduce social engineering threats in customer interactions.

We also upgraded key processing and storage servers and systems with new, higher-performance solutions and migrated corporate communications to the cloud, all reducing overall expenses and enhancing security and productivity.

# DCI Principle:

## Stability and Security

**Operations Focus on Output and Performance**

Among several operations initiatives, the most significant was our preparations to provide completely new, enhanced CSA statements to all our core clients by early 2020, featuring fresh, new, full-color formats and custom options for both traditional and online statements.

Operations also focused on increasing overall ATM/card service performance by implementing new software systems handling daily processing for several new banks in 2019, with others to follow in 2020.

2020 initiatives will focus on the vast, intricate phase two of our new caverns data center migration while keeping up-to-date with other security controls, PCI-certification, increased data reliability and migrating to an enhanced, single unified storage system to improve productivity, cost and scalability.

All these ongoing, proactive measures, enhancements and upgrades are designed to ensure we're delivering on our principle to provide the utmost in stability and security to our customers, without fail.

*"We converted to DCI about nine years ago and haven't regretted it for one minute."*

**Roxanne Klaus**
VP, Solutions North Bank, KS

# Independent Auditor's Report

## The Board of Directors, Data Center, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Data Center, Inc. which comprise the balance sheets as of December 31, 2019 and 2018, 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.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Data Center, Inc. as of December 31, 2019 and 2018, 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

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, Data Center, Inc. has changed its method of accounting for the recognition of revenue in 2019 resulting from to the adoption of Revenue from Contracts with Customers. Our opinion is not modified in respect to this matter.

Allen, Gibbs & Houlik, L.C.

January 23, 2020

Wichita, KS

# Balance Sheets

| ASSETS | 2019 | 2018 |
|---|---|---|
| ***Current Assets*** | | |
| Cash | $7,670,397 | $11,236,267 |
| Accounts receivable | 3,631,644 | 3,520,407 |
| Financing receivables, contract costs and prepaid expenses | 4,781,050 | 3,706,810 |
| Income taxes receivable | 60,695 | 203,038 |
| Inventory | 60,127 | 36,416 |
| Total current assets | 16,203,913 | 18,702,938 |
| ***Property & Equipment*** | | |
| Land | 254,787 | 254,787 |
| Building and improvements | 4,462,545 | 4,272,219 |
| Equipment | 11,401,982 | 9,255,782 |
| | 16,119,314 | 13,782,788 |
| Less: accumulated depreciation and amortization | 11,815,694 | 11,249,341 |
| Total property and equipment | 4,303,620 | 2,533,447 |
| ***Other Assets & Software*** | | |
| Financing receivables, contract costs and prepaid expenses | 3,493,060 | 2,423,059 |
| Other investments | 2,500,200 | -- |
| Software, less accumulated amortization of $10,326,216 and $9,590,784 | 8,370,827 | 9,109,744 |
| Total other assets and software | 14,364,087 | 11,532,803 |
| Total assets | $34,871,620 | $32,769,188 |

| LIABILITIES AND STOCKHOLDERS' EQUITY | 2019 | 2018 |
|---|---|---|
| ***Current Liabilities*** | | |
| Accounts payable | $1,160,768 | $506,576 |
| Accrued expenses | 1,454,785 | 995,537 |
| Accrued savings and retirement plan contribution | 375,000 | 320,000 |
| Contract liabilities (deferred revenue) | 798,252 | 1,541,405 |
| Total current liabilities | 3,788,805 | 3,363,518 |
| ***Other Liabilities*** | | |
| Deferred income taxes | 560,000 | 468,000 |
| Total liabilities | 4,348,805 | 3,831,518 |
| ***Stockholders' Equity*** | | |
| Common stock, $1 par value; authorized 500,000 shares, 104,447 outstanding in 2019 and 104,655 shares outstanding in 2018, net of shares held in treasury | 421,768 | 421,768 |
| Additional paid-in capital | 4,413,473 | 4,413,473 |
| Retained earnings | 41,061,067 | 39,418,408 |
| | 45,896,308 | 44,253,649 |
| Less treasury stock at cost; 317,321 and 317,113 shares in 2019 and 2018 | 15,373,493 | 15,315,979 |
| Total stockholders' equity | 30,522,815 | 28,937,670 |
| Total liabilities and stockholders' equity | $34,871,620 | $32,769,188 |



The accompanying notes are an integral part of these financial statements.

# Statements of Income

| | 2019 | 2018 |
|---|---|---|
| Revenues, net | $33,307,719 | $30,925,196 |
| Operating expenses: | | |
| Salaries and payroll tax | 17,901,852 | 17,181,099 |
| Other employee expense and benefits | 4,866,218 | 4,139,165 |
| Maintenance and processing | 2,964,199 | 2,630,870 |
| Occupancy | 1,023,225 | 951,520 |
| Depreciation and amortization | 2,296,096 | 2,250,210 |
| Administrative | 1,052,978 | 1,051,585 |
| Total operating expenses | 30,104,568 | 28,204,449 |
| Operating income | 3,203,151 | 2,720,747 |
| Other income (expense): | | |
| Interest, net | 85,995 | 46,511 |
| Financing receivables, net | (1,561) | -- |
| Rental income | 129,720 | 126,920 |
| Loss on disposal of software and equipment | (52,925) | -- |
| Total other income | 161,229 | 173,431 |
| Income before income taxes | 3,364,380 | 2,894,178 |
| Provision for income taxes | 872,000 | 710,000 |
| ***Net income*** | $2,492,380 | $2,184,178 |

# Statements of Stockholders' Equity

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2017 | $421,768 | $3,326,673 | $37,642,500 | $(14,056,651) | $27,334,290 |
| Purchase of 5,649 shares | | | | (1,452,528) | (1,452,528) |
| Issuance of 4,000 shares | | 1,086,800 | | 193,200 | 1,280,000 |
| Dividend to shareholders | | | (408,270) | | (408,270) |
| Net income | | | 2,184,178 | | 2,184,178 |
| Balance at December 31, 2018 | 421,768 | 4,413,473 | 39,418,408 | (15,315,979) | 28,937,670 |
| Change in accounting – revenue recognition | | | **(290,441)** | | **(290,441)** |
| Purchase of 208 shares | | | | **(57,514)** | **(57,514)** |
| Dividend to shareholders | | | **(559,280)** | | **(559,280)** |
| Net income | | | **2,492,380** | | **2,492,380** |
| Balance at December 31, 2019 | **$421,768** | **$4,413,473** | **$41,061,067** | **$(15,373,493)** | **$30,522,815** |



The accompanying notes are an integral part of these financial statements.

# Statements of Cash Flows

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $2,492,380 | $2,184,178 |
| Adjustments to reconcile net income to net cash flow from operating activities: | | |
| Depreciation and amortization | 2,296,096 | 2,250,210 |
| Loss on disposal of software and equipment | 52,925 | -- |
| Financing receivables, net | 1,561 | -- |
| Amortization of contract costs | 243,591 | 184,504 |
| Deferred income taxes | 92,000 | 52,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (111,237) | (428,570) |
| Financing receivables, contract costs and prepaid expenses | (2,679,834) | (1,333,646) |
| Income taxes | 142,343 | (389,006) |
| Inventory | (23,711) | 84,051 |
| Accounts payable | 654,192 | (101,210) |
| Accrued expenses | 459,248 | 235,874 |
| Accrued savings and retirement plan contribution | 55,000 | 101,000 |
| Contract liabilities (deferred revenue) | (743,153) | 192,154 |
| ***Net cash flow from operating activities*** | 2,931,401 | 3,031,539 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (2,652,591) | (327,777) |
| Purchase of other investments | (2,500,200) | -- |
| Purchase of software | (727,686) | (199,511) |
| ***Net cash flow from investing activities*** | (5,880,477) | (527,288) |
| Cash flows from financing activities: | | |
| Acquisition of treasury stock | (57,514) | (1,452,528) |
| Proceeds from sale of treasury stock | -- | 1,280,000 |
| Dividend to shareholders | (559,280) | (408,270) |
| ***Net cash flow from financing activities*** | (616,794) | (580,798) |
| ***Net change in cash*** | (3,565,870) | 1,923,453 |
| Cash at beginning of year | 11,236,267 | 9,312,814 |
| ***Cash at end of year*** | $ 7,670,397 | $11,236,267 |
| ***Supplemental disclosures of cash flow information:*** | | |
| Income tax payments net of refunds | $637,657 | $1,047,006 |



The accompanying notes are an integral part of these financial statements.

# Notes to Financial Statements

**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Business Operations – Data Center, Inc. (Company) is incorporated under the laws of the State of Kansas. The Company's primary business is to provide core banking software and technology services to financial institutions. The Company conducts business in approximately 40 states and extends credit to all customers. The Company's shareholders are financial institutions; most of which are also customers, and therefore related parties.

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash – The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on its cash accounts.

Accounts Receivable – Accounts receivable are carried at original invoice amount. Receivables are written off against the allowance when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Accounts receivable are considered past due after 30 days. Interest is not normally charged on past due amounts. Management believes that the Company's customers are creditworthy, and all receivables are collectible; therefore, the Company does not have an allowance for doubtful accounts as of December 31, 2019 and 2018.

Inventory – Inventories primarily consist of equipment, software and licenses purchased and held for resale and are stated at the lower of cost or net realizable value. Cost is generally determined on the specific identification method.

Property and Equipment – Property and equipment assets are recorded at cost and are depreciated over their estimated useful lives using the straight-line method, as follows:

Building and improvements: 15 – 25 years
Equipment: 3 – 10 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Depreciation expense for the years ended December 31, 2019 and 2018 was $882,418 and $797,349, respectively.

Software – Costs to acquire software products are capitalized and amortized over economic useful lives ranging between three and 15 years. Research and development costs and other normal maintenance costs are expensed when incurred. Amortization expense for the years ended December 31, 2019 and 2018 was $1,413,678 and $1,452,861, respectively.

Other Investments – The Company has other equity investment securities without a readily determinable fair value that are carried at cost less any impairment plus or minus changes resulting from observable price changes. As of December 31, 2019, there was no impairment or any observable price changes.

Impairment of Long-Lived Assets – Whenever events or changes in circumstances occur that indicate the carrying amount of long-lived assets (property or equipment, software and contract costs) may not be recoverable, management reviews the assets for possible impairment. Management's review of long-lived assets indicates that, at this time, there is no material impairment for 2019 or 2018.

Income Taxes – Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and loss carryforwards; deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. 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 the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company recognizes the financial effects of a tax position only when it believes it can more likely than not support the position upon an examination by the relevant tax authority. As of December 31, 2019 and 2018, the Company believes it does not have any material uncertain tax positions.

Change in Accounting – Effective January 1, 2019, the Company adopted *Revenue from Contracts with Customers*. This new guidance outlines a comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most existing revenue recognition guidance, including industry-specific guidance.

As a result of the adoption of the new guidance, the Company evaluated all of its existing revenue streams and revenue recognition policies and determined that the current accounting policies remain mostly unchanged with the exception of accounting for advances and receivables made to customers to pay contractual, one-time charges. Upon adoption, the Company now recognizes the existence of a financing component and reports the non-interest-bearing receivables using net present value techniques.

The Company elected a modified retrospective adoption method and applied the changes to all contracts as of January 1, 2019, with the cumulative effect of the change reflected as a decrease to retained earnings in the amount of $290,441.

Revenue Streams – Generally, the Company enters into contracts of three to 12 years in length. The Company generates revenue through the sale of processing services, through a core service license agreement, equipment and supplies, maintenance contracts, e-business services and other service products. The Company also records revenue under certain contracts for postage, telecommunication, supplies, certain travel and hardware costs, net of the related expenses that are passed on directly to the customer (such expense amounts were $6,512,984 and $6,631,802 in 2019 and 2018, respectively). Additionally, the Company also has deconversion related fees.

Performance Obligations Recognized at a Point in Time – Processing revenue is generated from transaction-based fees for electronic deposit and payment services, electronic funds transfers and debit and credit card processing. The Company's arrangements for these services typically require the Company to provide specific services on a when and if needed basis by processing an unspecified number of transactions over the contractual term. Amounts of revenue allocated to these services are recognized as those services are performed. Customers are typically billed monthly for transactions processed during the month.

Hardware revenue is recognized upon delivery.

Deconversion revenues are recognized when a contract with a customer has been terminated and the Company has no further performance obligations left with the customer; this method does not vary materially from U.S. accounting principles. Such deconversion revenues are approximately $1,490,000 and $1,186,000 in 2019 and 2018, respectively.

Performance Obligations Recognized Over Time – In-house and non-core revenue is generated from software maintenance for ongoing client support and software usage, which includes a license and ongoing customer support. These fees are typically billed to the customer annually in advance and recognized ratably over the maintenance term.

Contract Assets – Financing receivables are contract assets primarily resulting from advances made to customers to repay contractual, one-time charges due to the Company over the life of the contract. The Company analyzes contract language to identify if a significant financing component exists and adjusts the transaction price for any material effects of the time value of money if the timing of payments provides either party to the contract with a significant benefit of financing the transaction.

As of December 31, 2019, the outstanding balance and present value of financing receivables are $2,277,000 and $1,984,998, respectively. As of January 1, 2019, the outstanding balance and present value are $2,120,160 and $1,829,719, respectively. For 2019, financing receivable income (expense), of $(1,561) includes 2019 interest income of $83,966 offset by new 2019 financing receivable costs of $85,527.

The financing receivables are generally unsecured, non-interest bearing and have repayment terms of up to 120 months. At December 31, 2019, no financing receivables were past due, impaired or on a non-accrual status and there is no allowance for estimated credit losses.

Contract Liabilities (deferred revenue) – Contract liabilities (deferred revenue) primarily relate to consideration received from customers (primarily annual software maintenance and license agreements) in advance of delivery of the related goods and services. Revenue is recognized over time on a straight-line basis.

During the years ended December 31, 2019 and 2018, the Company recognized revenue of $1,764,995 and $2,275,750, respectively, that was included in the corresponding deferred revenue balance at the beginning of the periods.

Contract Costs – The Company incurs incremental costs to obtain a contract as well as costs to fulfill contracts with customers that are expected to be recovered. These costs consist primarily of sales commissions, which are incurred only if a contract is obtained, and customer conversion or implementation-related costs. Contract costs are capitalized and amortized on a straight-line basis over the life of the contract. Contract costs at December 31, 2019 and 2018, are $2,427,883 and $1,415,636, respectively.

For the years ended December 31, 2019 and 2018, amortization of contract costs totaled $243,591 and $184,504, respectively.

Accounting Standards not yet Adopted – Leases eliminate the concept of operating leases and include substantial changes for accounting by lessees; existing operating leases and all new leases, unless immaterial, will require balance sheet recognition (right to use asset and lease liability). The standard is expected to be effective for the Company with its 2021 year. The Company is evaluating the potential effects on the financial statements.

Reclassification – Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation. These reclassifications had no effect on net income.

Subsequent Events – Subsequent events have been evaluated through January 23, 2020, which is the date that these audited financial statements were available to be issued.

**2. INCOME TAXES**

Deferred tax assets (liabilities) consist of the following at December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Property, equipment and software | $(284,000) | $(359,000) |
| Prepaid expenses | (465,000) | (429,000) |
| Acquisition costs | 13,000 | 15,000 |
| State tax credits carryforward | 176,000 | 305,000 |
| Deferred tax liabilities | $(560,000) | $(468,000) |

As of December 31, 2019, the Company has Kansas High Performance Incentive Program credits and Kansas research and development tax credits of $176,000 (begin to expire in 2030). Realization of the tax credits is dependent upon future taxable income during the period prior to when the credits are scheduled to expire. Management believes the credits will be utilized prior to expiration; therefore, no valuation allowance is provided.

Income tax expense for the years ended December 31, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Current | $780,000 | $658,000 |
| Deferred | 92,000 | 52,000 |
| Total | $872,000 | $710,000 |

**3. OPERATING LEASES**

The Company leases office space and equipment from unrelated parties. Lease terms vary in duration and include various option periods. The leases generally require the Company to pay taxes, maintenance and insurance. Future minimum lease payments under noncancelable operating leases, with initial terms in excess of one year, as of December 31, 2019, are as follows:

| | |
|---|---|
| 2020 | $310,688 |
| 2021 | 70,297 |

Total rental expense for all operating leases was $451,433 and $448,779 for the years ended December 31, 2019 and 2018, respectively.

The Company also leases space in its corporate headquarters to an unrelated party under a long-term lease agreement. Future minimum lease receipts under noncancelable operating lease, with initial terms in excess of one year, as of December 31, 2019, are as follows:

| | |
|---|---|
| 2020 | $143,720 |
| 2021 | 14,000 |

**4. PROFIT SHARING PLAN**

The Company has a Safe Harbor profit sharing plan, which includes a salary reduction feature, under Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees of the Company. Benefits vest to individual participants at varying rates with full vesting after the sixth year of service. The Company's profit-sharing contribution is determined annually by the Board of Directors. The Company will match the employee's salary reduction contribution to the plan up to 4% of the employee's annual compensation. Company contributions to the plan were $953,079 and $859,501 for the years ended December 31, 2019 and 2018, respectively.

# Directors

**KEITH HUGHES**
Chairman
First National Bank of Hutchinson, KS

**JEFFREY BALL**
President & CEO
Friendly Hills Bank, CA

**DOUGLAS BRIGGS**
President & CEO
First State Bank & Trust Company, KS

**GREG BINNS**
Vice Chairman
First National Bank of Hutchinson, KS

**MICHAEL CEARLEY**
CEO
Centera Bank, KS

**JOHN CLARKE**
President
Bank of Hays, KS

**WADE HUCKABAY**
President & CEO
All America Bank, OK

**JOHN JONES**
President & CEO
Data Center Inc., KS

**RANDY JOHNSTON**
Founder & CEO
NMGI, KS

# Officers

**JOHN H. JONES**
President & CEO

**SARAH E. FANKHAUSER**
EVP & COO

**DENNIS A. QUEAL**
EVP & CFO

**SENCER TASAN**
SVP Network/Tech Services & CIO

**GERALD W. REMPE**
SVP Operations

**DAREN FANKHAUSER**
SVP Chief Architect & CTO

**CONCHA DUARTE**
VP Backroom Services

**SUSAN FLORES**
VP Customer/Professional Services

**TANNA FAULKNER**
VP Digital Channels

**MARK HARRIS**
VP Marketing

**GREG HORNING**
VP Customer Relationships

**JAMES KITSON**
VP Operations

**SANDRA SCHMITT**
VP Application Development

**JAMES WEST III**
VP Conversions

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