DCI

DATACENTERINC.COM

2017 Annual Report

Core technology you can depend on, a relationship you can trust.

Customer Led Innovation

What sets DCI apart? It's simple – the promises we keep, the company we keep, and the solutions we deliver.

We were founded by community bankers in 1963 to develop innovative core processing technology that is uniquely personal and responsive to community banks. Today we're still as independent and passionate about providing breakthrough technology and extraordinary service that helps our clients succeed.

Our founders created a company unlike any other, focused on empowering community banks in their own success through technology. Today, we remain privately owned by bankers, with customers as board members and user group leaders, collaborating with our industry-leading engineers and executives on every aspect of our business.

Our unique ownership model and approach to customer collaboration makes DCI a more understanding and responsive partner because we are driven by the needs of our customers, not Wall Street performance or acquisitions.

We take the time to listen to our clients and build relationships on a first-name basis. Customers have direct access to senior management and opportunities to collaborate in all product innovation, development and implementation – helping us deliver banker-focused solutions that are flexible and competitive.

The results? A 55-year proven track record of breakthrough core processing technology backed by personal support as true partners in your success every day.


John Jones
President & CEO
Sarah Fankhauser
EVP & COO

Letter to Shareholders

DCI celebrated another successful year in 2017, marked with tremendous sales growth, progress on significant business initiatives, innovative new iCore360 developments and record-setting revenues of just under $30 million, with a nearly $1.5 million increase in stockholder equity.

Contributing to our financial success was heightened interest in non-core solutions like Internet/mobile banking and managed IT services, our next-generation iCore360 Analytics option, and a highly-energized sales effort bringing many new customers from Florida, Texas, Oregon, Illinois, Wyoming, Oklahoma and Kansas.

Key strategic initiatives in 2017 included implementing an expansive Enterprise Resource Planning (ERP) system to streamline internal efficiencies and customer service company-wide, investments to expand the performance, stability and strength of our data centers, and the development of several new iCore360 and eBanking capabilities. And we did it all while holding overall expenses to less than 1% over 2016.

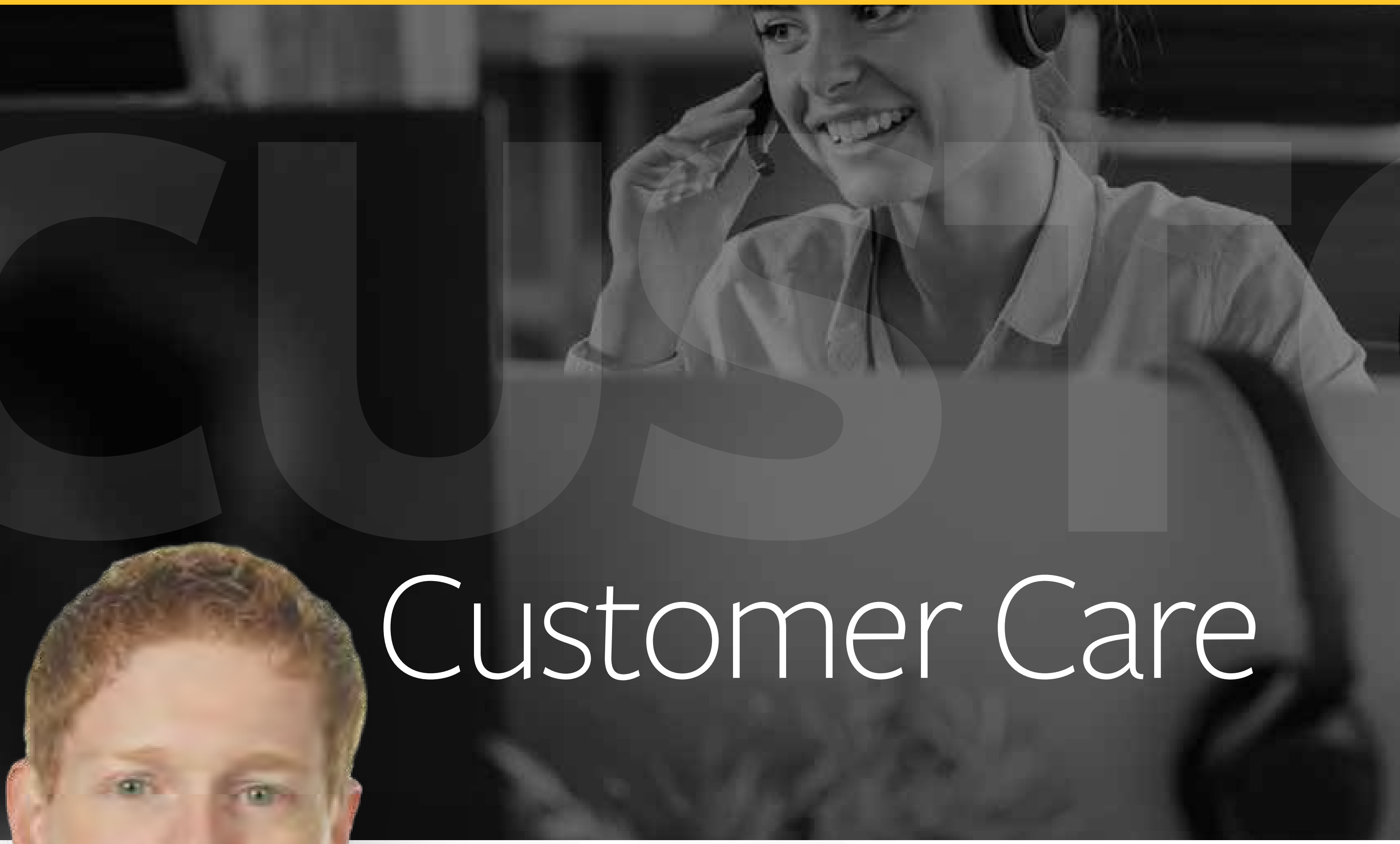
By the end of the year we were well on our way toward 2018 initiatives like our corporate website and online customer resource center that is integrated with the new company-wide ERP system, more IT infrastructure improvements, and new enhancements for iCore360 and eBanking, including real-time payments, loan portfolio management and document tracking, enhanced statements, fingerprint authentication, and more. In 2018 we will also expand our website hosting services to include new site design templates and content management tools that are all fully ADA-compliant.

Once again, DCI enjoyed industry recognition as an IDC Financial Insights FinTech Top 100 technology provider worldwide, the latest acknowledgment of our noteworthy stability and expertise in bank technology to add to other previous recognitions such as the FinTech Forward Top 100 and *BankNews* Innovative Solutions awards.

DCI continues to succeed as a leading core technology provider because our commitment to our customers still remains our first priority. By putting our customers first, listening to their needs, and collaborating to help them succeed, we assure success for ourselves. We look forward to 2018 with more opportunities to strengthen those customer relationships, expand our award-winning technologies, and introduce new institutions nationwide to the unique advantages DCI delivers.

Kathleen Steward

— Kathleen Steward
Chairperson of the Board



Customer Care

*“**They treat us like***

***we’re their #1 priority**.*

DCI is our backbone .”

Jonathan Ackley —
MIS Tech
All America Bank, OK

We're proud of our award-winning technology. But we're even prouder of our people and the individual, personalized service we provide to customers. Customer support is more than a catch-phrase at DCI, it's the core principal our 55-year-old foundation is built upon.

Our customer care professionals are curated and expected to deliver unparalleled support for our customers, and nothing less. As a result, our specialists resolve 74% of all inquiries on the first call. If we have to call a customer back, we guarantee it will happen within the hour, with a 30-minute goal, and a nine-minute average response time. We have certified technology and networking teams available around the clock and software calls are routed directly to an expert supervisor. And, no matter how or when you contact DCI, you will always talk to a live professional, never a machine.

We also make sure our customer relationship managers proactively reach out to every client on a regular basis. Each client is personally visited at least once a quarter, and senior executives often tag along. These one-on-one meetings give us the opportunity to listen, exchange ideas, strategize, and review new product or service options.

Our professional services team was on the go and on-site in 2017, handling an invigorating schedule of new core and eBanking client conversions, mergers, and ancillary product installations.

In addition, the professional services team completed numerous operational reviews for an in-depth analysis of day-to-day bank operations to help clients maximize their iCore360 investment to improve proficiency, service, and profitability.

Additionally, our education department continued to help our clients boost their knowledge and productivity by adding even more training tutorials to DCI University and by hosting webinars and WebEx meetings on several subjects, including Associated Relationship functionality, 2017 release pilot training, and new Premium Customer Center orientation. DCI University courses were also reorganized to make finding specific courses even easier.

In September, we hosted nearly 200 bankers – including many new and prospective bank clients – at our 2017 Annual Bankers Conference. Attendees received a first-hand look at our newest products and services and were shown the latest in industry trends. We also included the second annual e-Banking user group meeting as part of the conference schedule.

Special event recognition went to Laurie Leighty, EVP of American Riviera Bank in Santa Barbara, CA, who was named the recipient of our fourth annual Nation Meyer Innovative Banker Award for her noteworthy contributions toward the betterment of her bank, her community and DCI.

To further improve customer service, we consolidated several business systems and silos into a new Enterprise Resource Planning (ERP) solution that streamlines response and access to support resources, including a new online Customer Center to request assistance or find helpful client information like invoices; payment histories; status updates on support cases; and due diligence documents. This new all-in-one ERP solution dramatically increases the efficiency of our overall business administration, enhancing our response and service capabilities for our customers.

Each fall, our annual customer survey measures our clients' satisfaction with DCI on 33 different metrics. In 2017, nearly 100% of core customers responded with 83% giving DCI an overall satisfaction rating of 91% and 60% rated their satisfaction with a perfect score of 100%! This represents the 12th consecutive year our satisfaction ratings have been at – or above – 90% and clearly validates that our personal service and collaborative support truly does create a more satisfying customer experience.

Our people continue to prove that no one can match the level of personal support DCI provides, because we never take our customers for granted.

Customer Satisfaction

“**DCI is a vital, important partner**. *We put our best foot forward with our customers, and that is all due to DCI.”*

— **Becky Walker**
SVP/Cashier
Bank of Bolivar, MO

Research & Development

*“**They treat me more like a partner than a customer**. You can present an issue to DCI’s staff, and they get it. They want to understand how to get you where you want to go.”*

Doug Briggs —
Chairman & CEO
First State Bank & Trust Co., KS

Our research and development department continually strives to provide our customers with technology that not only enhances their user experience, but also increases overall efficiency and profitability.

Through ongoing research of new technologies, regulatory changes and the latest trends in banking we gain continuous inspiration for ideas to improve iCore360 and other DCI products for our customers.

But it's important that any refinement or development we consider is first deemed relevant and practical for our customers' needs. By listening and collaborating with customers through one-on-one meetings and our semi-annual customer-led user group meetings, we gain invaluable feedback that ensures our direction and results are truly centered on our customers and their daily working requirements. As a result, our user group requests made up nearly half of the 70 significant enhancements incorporated in our two major iCore360 releases in 2017.

Among our 2017 developments were vast visual design makeovers across our iCore360, ancillary and eBanking applications for a markedly updated appearance and more intuitive user experience, and streamlined workflow controls for loan management, mobile deposit automation, eBanking bill pay, e-signatures and check ordering.

We also implemented enhancements to support our ATM/Card processing, including automation and controls for pre-authorized transactions, improved card fraud management, and ATM terminal reports.

Our 2018 research and development initiatives include upgrades for enhanced statements, real-time payments, loan document tracking, and a multi-phase Loan Portfolio Management solution to centralize detailed portfolio information for loan officers, based on the various stages of loans. eBanking initiatives include a new visual design makeover, voice banking with Alexa integration, and fingerprint log-on.

iCore360® Highlights

iCore360 feature expansions by our development team in 2017 include:

- Account Origination – e-signature capability and automatic document image importing
- ACH – Display additional addenda information to customer's statement
- Check Order Interface – New check ordering options directly from iCore360
- Debit Card Round-Up Program – Round-up the amount of any point of sale card purchases to the next whole dollar amount and transfer the excess to a designated account in a single combined transfer at the end of the business day
- FINCEN CDD Regulation – Update regarding beneficial owners effective May 2018
- Mobile Deposit – Memo post deposits upon approval
- Positive Pay – Check the payee on a check transaction
- Statement Transaction/Post Date Option – Display either the transaction effective date or post date on statements
- Account Profile Report – Generate a more customer-friendly report format separate from the default report for bank use
- Loan Account Number Change – Change a loan account number and automatically update all the relevant records
- Escrow Analysis – Generate a test escrow analysis PDF statement for a single account
- Loan Payoff Statement – Produce customized payoff statements
- Safe Deposit Box – New warning when entering a manual payment for a box that is set up with automatic payments
- Transaction Import from Excel – Import a transaction file created in Microsoft Excel for processing through the MTX screen for edits, approval, reporting and posting

eBanking Highlights

eBanking feature expansions by our development team in 2017 include:

- Viewing of statements, notices, and documents directly from eBanking
- Registration directly from eBanking
- Optional service to view paper-only statements within eBanking
- Linked external account transfers
- Interface to Vertifi to memo post deposits upon approval
- Risk based challenges for additional security
- Ability to display deposit sets
- Automate ACH files for processing
- Ability to create NACHA files from CSV, fixed or delimited file layout
- Secondary user enhancements
- Allied/Checkfree bill pay enhancements

2018 Initiatives

For 2018, our research and development initiatives include:

- Multi-phase Loan Portfolio Management project to centralize important loan officer portfolio information
- Account Origination multiple account workflows and driver's license information capture
- Loan document tracking
- Item image research within iCore360, searching all items in the repository with numerous criteria options and creating printable PDFs of selected items
- Enhanced statements
- Document Imaging direct scanning and file importing options
- GL Net Interest Margin provides easy one-time setup for net interest margin, yields, source, and use of funds
- Real-time payments
- Additional programming modifications to follow new required information security best practices in the Payment Card Industry Data Security Standard (PCS DSS)

And eBanking enhancements include:

- New visual design for both mobile and desktop
- Voice banking with Alexa integration
- New and enhanced reporting
- Fingerprint login for mobile application
- Admin user assist functionality
- Auto enrollment

Sales & Marketing

*"With DCI, I know I'm going to get a **real person that knows me**, knows our bank."*

Voni Humphreys —
Vice President
Valley Republic Bank, CA

The DCI sales team gained monumental headway in 2017, bringing DCI the second highest number of new core clients in a single year. Banks from Florida, Wyoming, Texas, Oregon, Oklahoma, Illinois and Kansas were added to the DCI family, many with extended, long-term contracts.

With new energy and tools in hand, we also added many new Internet/mobile and ancillary product customers, plus we dramatically increased the number of prospective core customers nationwide.

We extended our marketing exposure by attending numerous industry tradeshows and speaking engagements across the country, along with a wide array of media exposure, including several executive interviews, quotes, press releases, and expanded social media campaigns, including postings for the ICBA community banking month.

DCI continued to be recognized as one of the top financial technology providers in 2017, including a repeat ranking among the 2017 IDC Financial Insights FinTech Top 100 companies, adding to previous recognition as a FinTech Forward Top 100 technology provider by American Banker and BAI, a three-time winner of the *BankNews* Innovative Solutions Award and the exclusive core provider endorsed by the California Bankers Association. These recognitions underscore our leading status in the industry as an innovative, reliable and stable partner bankers can trust.

For 2018, our sales and marketing outreach will be enhanced with new prospecting and sales management tools, including new demographic prospecting data integrated into our company-wide ERP system, the launch of our new, fully-redesigned corporate website, new marketing collateral materials and wider reaching digital advertising.

We look forward to another strong sales performance in 2018 with several new core customers already signed and an active pipeline of potential customers, as we continue to spread the word about the unique differences of DCI to new territories and new bankers nationwide.

Systems & Operations

*“**DCI adapts their software** to meet our needs.”*

Wade Huckabay —
President
All America Bank, OK

Cyber security remained a top priority in 2017 for our network, systems, and operations technicians, with a focus on increased protection for data communications, PCI-certification assessments, disaster recovery readiness, and overall system security.

Our technicians conducted disaster recovery tests with numerous customers, continuing to monitor the readiness of both our technology infrastructures and our staff to provide seamless, near real-time backup and recovery.

Among routine measures, our engineers implemented several additional security controls to further protect the internal transmission of iCore360 and card data as well as ensure immediate recoverability for our Internet/eBanking between our production and data recovery data centers. These measures also increased data reliability and security for our service bureau customers.

Additionally, we consolidated several of our administrative and business management systems into our new NetSuite Enterprise Resource Planning (ERP) solution. This massive undertaking encompassed our entire processes for technical support, customer care, accounting, project management, sales, development, email and more, providing a single platform and source of data to increase our internal business accessibility, efficiency, and accuracy. This, along with other new software tools, enhances the response and management of thousands of technical support ticket requests and further streamlines hardware and operating system migrations while improving user management, network security and routine system administration overall.

Plus, we replaced key communications hardware at all customer locations with new, next generation operating systems, adding enhanced security, strength and streamlined management features to the foundation of our network overall.

For 2018, our systems and network engineers will continue to focus on security controls, PCI-certification, and improved data security. Risk management efforts will also be increased through expanded metrics controls and threat analysis.

Our operations staff will continue to focus on expanding capabilities for improved branch processing and enhanced bank statement options, while also consolidating select remote processing operations into our headquarters data center to increase overall efficiency and cost savings system wide.

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, 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.

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, 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.

Allen, Gibbs & Houlik, L.C.

January 26, 2018

Balance Sheets

ASSETS	2017	2016
Current Assets		
Cash	$ 9,312,814	$ 8,269,639
Accounts receivable	3,091,837	3,235,669
Other receivables and prepaid expenses	3,005,070	2,681,427
Income taxes receivable	--	214,698
Inventory	120,467	45,083
Total current assets	15,530,188	14,446,516
Property & Equipment		
Land	254,787	254,787
Building	4,272,219	4,272,219
Equipment	9,191,413	8,915,960
	13,718,419	13,442,966
Less: accumulated depreciation and amortization	10,715,400	10,635,611
Total property and equipment	3,003,019	2,807,355
Other Assets & Software		
Other receivables and prepaid expenses	1,975,657	1,266,549
Software, less accumulated amortization of $8,287,903 and $6,864,057	10,363,094	11,464,792
Total other assets and software	12,338,751	12,731,341
Total assets	$ 30,871,958	$ 29,985,212

LIABILITIES AND STOCKHOLDERS' EQUITY	2017	2016
Current Liabilities		
Accounts payable	$ 607,786	$ 810,706
Accrued expenses	759,663	790,332
Accrued savings and retirement plan contribution	219,000	207,000
Income taxes payable	185,968	--
Deferred revenue	1,349,251	1,432,789
Total current liabilities	3,121,668	3,240,827
Other Liabilities		
Deferred income taxes	416,000	897,000
Total liabilities	3,537,668	4,137,827
Stockholders' Equity		
Common stock, $1 par value; authorized 500,000 shares, 106,304 shares outstanding in 2017 and 2016, net of shares held in treasury	421,768	421,768
Additional paid-in capital	3,326,673	3,326,673
Retained earnings	37,642,500	36,155,595
	41,390,941	39,904,036
Less treasury stock at cost; 315,464 shares in 2017 and 2016	14,056,651	14,056,651
Total stockholders' equity	27,334,290	25,847,385
Total liabilities and stockholders' equity	$ 30,871,958	$ 29,985,212

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

Statements of Income

	2017	2016
Processing revenue, net	$ 29,838,921	$ 29,667,328
Operating expenses:		
Salaries and payroll tax	16,954,295	16,684,321
Other employee expense and benefits	4,012,473	4,015,387
Maintenance and processing	2,636,431	2,480,098
Occupancy	955,886	1,281,608
Depreciation and amortization	2,228,345	2,301,428
Administrative	1,175,266	1,179,600
Total operating expenses	27,962,696	27,942,442
Operating income	1,876,225	1,724,886
Other income (expense):		
Interest income, net	25,778	25,272
Rental income	134,544	112,748
Loss on disposal of software and equipment	(56,828)	(458)
Total other income	103,494	137,562
Income before income taxes	1,979,719	1,862,448
Provision for income taxes	243,000	708,000
Net income	$ 1,736,719	$ 1,154,448

Statements of Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2015	$ 421,768	$ 3,326,673	$ 35,528,175	$ (10,785,824)	$ 28,490,792
Purchase of 13,787 shares				(3,270,827)	(3,270,827)
Dividend to shareholders			(527,028)		(527,028)
Net income			1,154,448		1,154,448
Balance at December 31, 2016	421,768	3,326,673	36,155,595	(14,056,651)	25,847,385
Dividend to shareholders			(249,814)		(249,814)
Net income			1,736,719		1,736,719
Balance at December 31, 2017	$ 421,768	$ 3,326,673	$ 37,642,500	$ (14,056,651)	$ 27,334,290

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

Statements of Cash Flows

	2017	2016
Cash flows from operating activities:		
Net income	$ 1,736,719	$ 1,154,448
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	2,228,345	2,301,428
Loss on disposal of software and equipment	56,828	458
Deferred income taxes	(481,000)	54,000
Changes in operating assets and liabilities:		
Accounts receivable	143,832	297,472
Other receivables and prepaid expenses	(1,032,751)	(625,560)
Income taxes	400,666	732,966
Inventory	(75,384)	12,975
Accounts payable	(202,920)	54,046
Accrued expenses	(30,669)	280,858
Accrued savings and retirement plan contribution	12,000	(171,000)
Deferred compensation	--	(164,000)
Deferred revenue	(83,538)	(327,700)
Net cash flow from operating activities	2,672,128	3,600,391
Cash flows from investing activities:		
Proceeds from sale of equipment	6,000	5,000
Purchase of property and equipment	(987,991)	(344,377)
Purchase of software	(397,148)	(491,304)
Net cash flow from investing activities	(1,379,139)	(830,681)
Cash flows from financing activities:		
Acquisition of treasury stock	--	(3,270,827)
Dividend to shareholders	(249,814)	(527,028)
Net cash flow from financing activities	(249,814)	(3,797,855)
Net change in cash	1,043,175	(1,028,145)
Cash at beginning of year	8,269,639	9,297,784
Cash at end of year	$ 9,312,814	$ 8,269,639
Supplemental disclosures of cash flow information:		
Income tax payments net of refunds	$ 323,334	$ (78,966)

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 and Revenue Recognition – 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, 2017 and 2016.

Generally, the Company enters into contracts of three to 10 years in length. The Company generates revenue through the sale of processing services, equipment and supplies, maintenance contracts, software, ebusiness 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 $6,010,332 and $5,579,520 for 2017 and 2016, respectively.

Processing revenues are recognized when applicable services are provided and conversion revenues are recognized when the conversion is complete. Deconversion revenues are recognized when a contract with a customer has been terminated (such revenues are approximately $2,162,000 and $703,000 in 2017 and 2016, respectively). Amounts received in advance of when services are provided are reflected as deferred revenue until such services are provided to the customer.

Other Receivables and Prepaid Expenses – Prepaid expenses primarily consist of postage costs and maintenance fees; other receivables primarily consist of advances made to customers to repay contractual, one-time charges due to the Company over the life of the contract. Such receivables, which are $1,682,283 and $1,330,704 at December 31, 2017 and 2016, respectively, are generally unsecured, non-interest bearing and have repayment terms of up to 120 months. At December 31, 2017, no receivables were past due, impaired or on non-accrual status, and there is no allowance for credit losses for those receivables.

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 for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Software – Costs to acquire software products are capitalized and amortized over economic useful lives ranging between 3 and 15 years. Research and development costs and other normal maintenance costs are expensed when incurred.

Impairment of Long-Lived Assets – Whenever events or changes in circumstances occur that indicate the carrying amount of long-lived assets 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 impairment.

Deferred Compensation – Costs associated with the deferred compensation plans are recognized as the benefits are earned and over the estimated service period of the participant. As allowed under accounting principles generally accepted in the United States of America, the Company records the expected obligation without using present value techniques.

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, 2017 and 2016, the Company believes it does not have any material uncertain tax positions.

Accounting Policies not yet Adopted:

Revenue Recognition – The FASB issued a new accounting standard, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under U.S. accounting principles. The core principle of the new standard is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. The new accounting standard defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. accounting principles. The standard is first effective for the Company with its 2019 year.

Advances and receivables made to customers to pay contractual, one-time charges are generally non-interest bearing. The new revenue recognition policy will require the Company to recognize the existence of a financing component and reflect the non-interest bearing receivables using net present value techniques. At this time, the Company believes there will be no material impact on how processing revenues will be recognized.

Leases – The FASB issued a new accounting standard, Leases, which will eliminate the concept of operating leases, among other things. This new standard will 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 2020 year. The Company is currently evaluating the impact of the pending adoption of the new standard.

Credit Losses – The FASB issued a new standard, *Financial Instruments – Credit Losses*, (also known as CECL) that requires the measurement of expected credit losses (allowance for doubtful accounts) that is based on historical experience and current conditions and reasonable and supportable forecasts that affect collectability of reported amounts. The standard is expected to be effective for the Company with its 2021 year. At this time, the Company does not believe it will have a material impact on its financial statements.

Reclassification – Certain amounts in the 2016 financial statements have been reclassified to conform with the current year presentation.

Subsequent Events – Subsequent events have been evaluated through January 26, 2018, which is the date that these audited financial statements were available to be issued.

2. DEFERRED COMPENSATION

The Company has a Performance Incentive Plan (PIP) for key employees. Awards are based on threshold and target performance, as defined, and are payable within 2 ½ months after the date a participant becomes entitled to receive payment. Compensation costs for the PIP (included in other employee expense and benefits) were $0 and $48,167 for 2017 and 2016, respectively.

3. INCOME TAXES

Deferred tax assets (liabilities) consist of the following at December 31, 2017 and 2016:

	2017	2016
Property, equipment and other assets	$(474,000)	$(669,000)
Prepaid expenses	(377,000)	(677,000)
Acquisition costs	16,000	28,000
State tax credits carryforward	419,000	421,00
Deferred tax assets (liabilities)	**$(416,000)**	**$(897,000)**

As of December 31, 2017, the Company has Kansas High Performance Incentive Program credits and Kansas research and development tax credits of $419,000 (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 (benefit) for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Current	$724,000	$654,000
Deferred	(481,000)	54,000
Total	**$243,000**	**$708,000**

The income tax provision differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pretax income because of State taxes, Federal and State tax credits, nondeductible expenses and changes in estimates from prior year tax accruals. For 2017, income tax expense was decreased by $494,000 which is a change in estimate attributed to the *Tax Cuts and Jobs Act of 2017.*

4. 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, 2017, are as follows:

2018	$407,786
2019	184,995
2020	17,906

Total rental expense for all operating leases was $461,101 and $495,845 for the years ended December 31, 2017 and 2016, respectively.

The Company also leases space in its corporate headquarters to an unrelated party under a long-term lease agreement. Additionally, the Company leases a building it owns to a third party. Future minimum lease receipts under noncancelable operating leases, with initial terms in excess of one year, as of December 31, 2017, are as follows:

2018	$143,720
2019	143,720
2020	112,920

5. 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 $760,377 and $734,848 for the years ended December 31, 2017 and 2016, respectively.

Directors

Officers

John Jones
President & CEO

Sarah Fankhauser
EVP & COO

Dennis Queal
SVP & CFO

Sencer Tasan
SVP Network/Tech Services & CIO

Gerald Rempe
SVP Operations

Daren Fankhauser
SVP Chief Architect & CTO

Concha Duarte
VP Backroom Services

Susan Flores
VP Customer/Professional Services

Clay Hamlet
VP Sales & Marketing

Mark Harris
VP Marketing

Greg Horning
VP Customer Relationships

James Kitson
VP Operations

Alan Kruse
VP Industry Analyst

Karol Sauer
VP HR/Business Continuity

Sandra Schmitt
VP Application Development

James West III
VP Conversions

Edward Wild
VP Ancillary Applications

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