D·C·I
DATACENTERINC.COM

2018 Annual Report

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

A Trusted Partner

Delivering Advanced Core Technology and Digital Services That Enrich Our Clients Endeavors

At DCI our award-winning technology and superior customer service are inherent traits forged from our history of cooperation, integrity, and innovative vision—the fundamental principles on which four community bankers founded DCI 56 years ago and which remain at the heart of our company today.

The DCI Difference

Unique in the bank technology industry, DCI is an independent company privately-owned by several of our client banks with customers also serving as board members and active user-group leaders—collaborating with DCI executives and engineers to pursue a strong, prosperous future, together.

"iCore360 is a great choice for a community bank."

Todd Carr —
SVP, First National Bank of Hutchinson, KS

This makes DCI a genuine business partner more focused on customer success and satisfaction than stock market expectations or acquisitions. It means DCI is more responsive to clients, with a shared interest in their success. It means that both our technology and our support are by nature more customer-centric, adaptive and competitive. It means we know our customers on a first-name basis, treat them like family, and pledge to provide the technological resources and support they need to be productive and competitive...And side by side, we'll continue forging the way to better banking, through a trusted partnership of innovation and support where we all succeed together.

John Jones
President & CEO

Sarah Fankhauser
EVP & COO

Letter to Shareholders

A Promising Future Through Innovative Growth and Award-Winning Service

DCI completed 2018 with another prosperous and productive year, highlighted with solid financial performance and substantial enhancements in security infrastructure and iCore360 developments.

Stability & Growth

Financially, we recorded our highest-ever annual revenue at $30.9 million, with a $1.6 million increase in stockholder equity and a $158,456 increase in shareholder dividends. These earnings were supported by positive results in new client sales, third-party alliances, product sales to existing clients, and holding overall expenses to less than 1% over 2017.

2018 welcomed several new core clients from Kansas, Colorado, Ohio, and Maryland along with positive growth from customers also interested in our non-core solutions for online/mobile banking and new voice-assisted banking, part of our broader strategic transition into digital banking services.

Innovative Initiatives

Among a wide array of iCore360 enhancements, we unveiled many other significant initiatives like:

- New conversational/AI-enabled banking with Alexa/Siri/Google voice-assisted capabilities
- New website hosting services featuring ADA-compliant, modern designs and user-friendly content management tools
- Expanding our company-wide Enterprise Resource Planning (ERP) system and online customer resource center
- New business intelligence capabilities with iCore360 Analytics
- Initial groundwork for a complete redesign of our digital online/mobile solutions
- New loan portfolio management and document tracking
- Biometric facial recognition for mobile banking
- Expanded fraud monitoring, and more

Other corporate-wide goals for 2019 include:

- Launching our redesigned digital online/mobile banking solutions and the introduction of new digital banking channels
- New custom statement design options
- New solutions for automated customer onboarding and account opening capabilities
- New layers of client security protection
- Data center migrations, expanding our overall capabilities, efficiencies and redundancy for disaster readiness
- New systems hardware and software to boost stability, performance, and ensure disaster recovery, cyber threat defense, data loss prevention, and PCI compliance on a near real-time basis

Banking-Focused Leadership

Leadership changes in 2018 included a fond farewell to prominent Kansas banker Kathleen Steward, who retired as DCI board chair with a distinguished tenure, helping direct DCI through 15 years of industry-leading progress and award-winning innovations. I was honored to accept the nomination as the new Chairman of the Board, and pleased to also welcome DCI client Greg Binns, President and COO of First National Bank in Kansas, as Vice-Chair and Chair of the Governance/Compensation Committee.

The board also exercised the opportunity to buy back a portion of DCI stock from a previous shareholder that was quickly repurchased by several new and existing shareholders.

Looking Ahead

As we celebrate our successes in 2018, we enter 2019 as we do every new year: strong, optimistic, pursuing growth and guided by our number one priority: ensuring the success and satisfaction of our customers, delivered through innovative digital technologies they can depend on and backed by a relationship they can trust.

— **Keith Hughes**
Chairman of the DCI Board
ABA Community Bankers Council Member

Customer Care

A Tradition and Culture of Personal Service from People You Know and Trust

Our award-winning core processing and companion digital solutions are outstanding, but where DCI beats our competition, hands down, is in the exceptional customer care our people provide, 24 hours a day, seven days a week, 365 days a year.

Real People, Real Support

Others may talk a good game, but we walk the walk year-in and year-out with a level of personal support and attention that can't be matched. And 2018 was no different.

Our support professionals made certain that every customer call was answered by a live person, with nearly 80% of all calls resolved at first contact, and all inquiries handled with an average response time of 11 minutes or less across all contact points including web, email and iCore360 live chat.

Additionally, our relationship managers conducted several hundred personal, on-site bank visits—visiting each DCI core bank client at least once a quarter—often accompanied by DCI technical experts and senior executives. These face-to-face visits are just another way we ensure that every client is getting the services and support they need by proactively addressing product service updates, special requests, and strategic advice.

As a result, our relationship managers renewed 100% of the customer contracts up for voluntary renewal in 2018, and fulfilled nearly 400 orders for new DCI products/services.

“When I need something DCI is always there...They are top-notch when it comes to customer service.”

— **Christy Mavers**
AVP, FirstOak Bank, KS

Enhanced Support, Increased Efficiencies

In other areas of customer care, our professional services team organized another very busy year of new bank conversions, mergers, and ancillary product installations, including increasing requests for the popular, new iCore360 Analytics option. In addition, a streamlined operational review process helped a record number of clients improve their efficiency, service, and profitability through maximized iCore360 features.

As always, our DCI education professionals also helped hundreds of clients maximize the use of their iCore360 investment through on-site training, webinars and a full suite of free instructional how-to videos available on-demand via the DCI University feature in iCore360, including new courses on iCore360 Analytics and all iCore360 enhancement releases.

We also continued to fine-tune the enterprise resource management systems we implemented in 2017 to interconnect and streamline all functional areas, and enhance customer support responsiveness. This fine-tuning included extensive training with updated features and configurations, plus expanding our new online customer center for quick, easy access to customer support assistance and self-service tools for key information like invoices, payment histories, project status updates, due diligence details and more.

A Family Affair

In September, DCI again hosted nearly 300 customers, staff, business partners and a record number of prospective clients at our annual customer conference for a first-hand look at the latest DCI product updates, free training, networking, and a wealth of banking insight lead by DCI clients and other prominent industry experts.

The event was highlighted by awarding the fifth annual Nation Meyer Award to DCI banker Johnny Branch, of All America Bank in Oklahoma, for his visionary accomplishments creating innovative internet-only banks and products, his significant contributions toward iCore360 enhancements, and selfless service to his co-workers and community.

Success Through Satisfaction

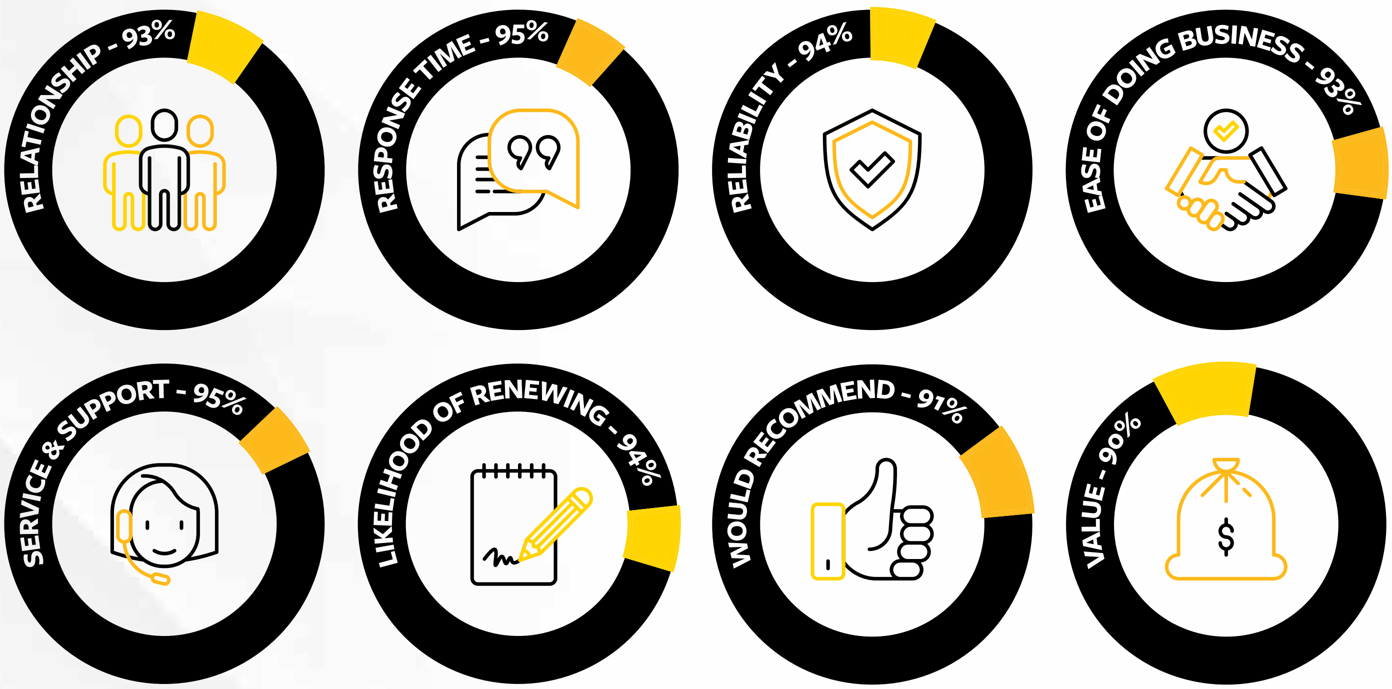
Once again, our annual customer satisfaction survey reflected the success of our customer service efforts with 100% of iCore360 clients rating their overall satisfaction with DCI at 92%—marking 13 consecutive years of overall satisfaction ratings above 90%.

Furthermore, 73% of customers rated their satisfaction with a perfect score of 100%. Along with a voluntary contract renewal rate of 100%, results like these prove DCI is a clear winner when it comes to customer care, customer satisfaction and customer loyalty.

For 2019, we will continue to strengthen our customer service though initiatives to provide more operational reviews, expanded educational updates, and expanded security measures to protect client interactions and sensitive customer information against the risk of social engineering attacks and other forms of fraud.

Customer Satisfaction

Our annual customer satisfaction survey generated positive feedback, as 100% of core clients responded. Results like these prove that it's our service and support that make DCI the better than the rest in customer satisfaction and loyalty.



"DCI is a very committed partner to their customers... When it comes to customer service, DCI shines."

— **David Courey**
CFO, Cowboy State Bank, WY

Research & Development

Thinking and Innovating from a User Experience Perspective

Our DCI research and development engineers continuously analyze trends in banking and technology to identify ways we can enhance the capabilities of iCore360 and our other digital tools to improve our clients' lives.

Customer Collaboration

Our development methodology specifically requires that every enhancement and new product we consider is evaluated from our customers' viewpoint, with practical results that are meaningful to them through greater workflow efficiency, profitability and service to their customers.

The value of this approach has been proven over and over through highly-productive, customer-led user group meetings. Each year these multiple meetings generate invaluable input for deciding which iCore360 enhancements are approved by our customers, guaranteeing that our methods, designs, and outcomes are focused on improvements that help our clients succeed. This model has produced some of our most significant, popular, and prolific innovations for decades. If fact, since 2002, we have implemented over 700 specific user group requests.

In 2018 key enhancements included initiatives for real-time payments, loan document tracking, and a multi-phase loan portfolio management upgrade. Updates to our digital banking solutions included conversational voice banking with AI integration, and facial recognition biometrics and work toward a completely new online banking redesign. We also added new executive staff to help lead our focused evolution in digital banking channels.

2018 iCore360 enhancement highlights:

- Account origination features to simplify multiple account management
- Improved automation of accounts payable tax calculations
- Streamlined loan amortization schedule automation
- Expanded ATM terminal reports – New daily, monthly, 12-month, and overall ATM terminal summary reports
- CECL historical data analysis capabilities
- Simplified card chargeback dispute processing
- Improved email of teller transaction receipts
- Simpler safe deposit box transactions
- Improved driver's license capture
- EMV card transaction and terminal history detail
- New Interface to monitor electronic transactions for fraud
- Improved process for image ATM/Card settlement
- Multiple features for item image research
- Loan call report FFIEC modifications
- Loan extension history features
- New options for assessing loan late charges
- Expanded, centralized loan portfolio management
- Easier setup for net interest margin, yields, source, and use of funds
- Additional PCI certification programming

2018 Digital eBanking highlights:

- New conversational voice/touch/ AI-enabled banking (Alexa/Siri/Google)
- New and enhanced reporting
- Biometric authentication for mobile banking
- Automated enrollment functionality
- Expanded bill pay options
- New mobile HELOC transfer options
- Enhanced cash management
- New credit union interfaces
- Secondary user enhancements
- Mobile options for principal and interest split loan payments
- New credit reporting and scoring options
- New options for account-friendly naming
- Running balance mobile enhancements

Other New Releases

In addition to the full slate of iCore360 and digital banking enhancements, our development teams launched several new product offerings, including iCore360 Analytics, AI-enabled voice banking, and a new website design, hosting and content management system.

"DCI is the top core processing center I've ever worked with."

— **Geneva Myers**
Loan Officer, Wilson State Bank, KS

iCore360 Analytics

After much anticipation, we launched our new iCore360 Analytics option with resounding popularity. This remarkably advanced tool redefines the ways banks can interact with their data at every level to unlock unlimited insights into customer profitability, product performance, marketing opportunities and more.

With a results-oriented approach and the freedom to tap virtually any type, level or source of data, banks can access, track, analyze and present data in unlimited ways, from broad, sweeping views to the finest granular detail. Analytics also provides users with intuitive, interactive access to workflow-specific information that is instantly actionable and dynamically personalized for their role and identity. Plus, a collection of preformatted, customizable templates automates simple, repetitive tasks and details for management reports, mailing labels, and more.

Interactive Voice Banking

In 2018 DCI launched a new innovation in self-service banking with our Interactive Voice Banking (IVB) solution that combines the power of digital assistants like Alexa, Siri and Google with artificial intelligence and iCore360 to provide an extraordinarily personal, yet hands-free experience for full-service banking, on-demand. This all-inclusive, managed service has been greeted with tremendous interest from bankers as a cost-effective way to open new channels with their customers using today's technology, but without sacrificing security or resources.

Web Hosting and Content Management

Another new DCI innovation launched in 2018 makes it easier than ever for banks to have a modern, customer-friendly and worry-free website—fully compliant, secure and responsive on any device—using our new website design, hosting, and content management system (CMS) services.

"A lot of things about banking can keep you up at night, but DCI is seamless."

Greg Binns —
President/COO, First National Bank of Hutchinson, KS

Using structured templates and intuitive editing tools, DCI experts work with our clients to build and maintain a modern responsive website that is also ADA compliant and easy to update with no technical expertise required. Banks can easily update interest rates, products, promotions and other website information as easily as using a common word processor, with complete control over user access and convenient tools to preview, track and undo changes.

These new offerings are just a few of the many 2018 developments designed to help our clients increase their productivity, competitiveness, and efficiency.

What's In Store?

DCI customers have many exciting developments to look forward to in 2019, as we lay the groundwork for several new iCore360 features, plus new initiatives in data mining, payments, fully redesigned and customized statements, plus a wide array of new and reimagined digital banking channels, including extraordinary leaps in customer onboarding, online account opening and a complete redesign of our online/mobile solutions.

Other 2019 Initiatives:

- Final phase of loan portfolio management features
- Expanded iCore360 Analytics features
- New, full-featured loan origination with customized, compliant workflows
- Escrow payment workflow updates
- Customer entry/maintenance updates for account opening
- Real-time payments
- Fully compliant, integrated and automated end-to-end online deposit account opening
- Completely redesigned, custom statements
- Account origination features for easier customer look-up
- Enhanced BSA Risk Assessment
- Customer support cybersecurity measures
- New document capture, drag/drop features in iCore360
- Redesigned merchant and branch capture interfaces and workflow efficiencies
- Increased security for card services and features
- New automated Visa/Mastercard account updates
- Expanded email fraud alert options
- New online card/account posting features
- Expanded ATM terminal/acquirer features
- GL workflow enhancements
- Tickler enhancements

Sales & Marketing

Delivering the Message of a Better Core Relationship, Coast-To-Coast

Our sales professionals started 2018 with strong results and kept a sustained effort all year. Their busy schedule of working leads, tradeshow events, prospecting calls and product demos opened previously-untapped territories for DCI and broadened our reach in established markets. As a result, several new core customers joined the DCI family from Colorado, Kansas, Ohio and Maryland, while sales of our non-core digital banking solutions also continued to rise.

Tools for Success

Mating our company-wide resource management system with new demographic prospecting tools helped streamline our sales management processes, with more initiatives planned in 2019. We also augmented our usual marketing outreach with a fully-redesigned corporate website, refreshed sales collateral, wider-reaching digital advertising, social media and prominent industry media coverage including DCI executive interviews, quotes and press releases.

No matter the channel, we continue to find that our unique value proposition resonates with community bankers nationwide, particularly in how our bank-owned structure, customer-led board of directors and user groups drive us to hold ourselves to a higher standard for customer service and satisfaction. This also bolsters a peaked interest in our new iCore360 features and other new digital solutions like conversational/AI-assisted banking, loan/account origination and automated customer onboarding.

The Not-So-Secret Advantage

Still, we know our clients are our most powerful sales resource. From routine customer referrals to unscripted customer testimonials on our website and other marketing media, we are proud to have so many bankers willing to promote the DCI difference and the importance of the personal relationship we share.

The power of this positive customer relationship is proven over and over in the sales process. A familiar example in 2018 was a prospective client who sought out former DCI clients to see what negative things he could find about DCI. He knew his decision was made when a former client reported that leaving DCI was one of the most regrettable decisions they had made and they were looking forward to returning to the DCI family.

Reaping the Rewards

In 2018 DCI was once again named as one of the top 100 technology providers to financial institutions in the 15th annual IDC FinTech Top 100 Rankings, just the latest of several recognitions and awards in recent years that underscore the success of our customer-first approach.

As we look ahead to 2019, we are encouraged by an ever-expanding sales pipeline of prospective clients. And we stand ready to deliver our message of a better core technology experience to all of them, coast to coast.

“They seem to genuinely care about not only you but your institution succeeding.”

— **Connie Penquite**
AVP, First National Bank of Blanchester, OH

Systems & Operations

Technology You Can Count On...
Secure, Stable and Reliable

Our systems and network engineers implemented numerous infrastructure upgrades in 2018, maintaining our compulsively high standards for ensuring our solutions are delivered with bullet-proof reliability, performance, security and an obsessive vigilance on customer attention, day-in and day-out.

Performance and Stability

These measures included vast new database, storage and communication architecture upgrades, improving virtualization performance, load balancing, redundancy/failover, impenetrable security and streamlined processing with greater cost savings and stability. Risk management efforts were also increased through expanded threat analysis and metrics controls.

Expanded Security

In 2018 we implemented new leading-edge technologies for greater encryption and scrambling of databases, plus in-depth disaster recovery testing, expanding the already-robust safety and security of DCI systems to ensure the steady resilience and readiness of both our technology infrastructures and staff.

And as always, our operations staff continued to focus on measures toward improved branch processing, enhanced statement capabilities, and ATM/card service performance, including consolidating select remote processing operations into our headquarters data center to streamline efficiency and resources system-wide.

Initiatives for 2019

For 2019, our systems engineers will focus on security controls, including PCI-certification requirements and new measures for authenticating client interactions across all customer support touchpoints to thwart social engineering threats, plus additional email security defenses against cyber threats.

Other initiatives include new multi-tenant database container architectures to enhance background performance, simplify maintenance, and maximize the use of advanced cloud storage and archiving capabilities to ensure key corporate communications are always available, even in the event of a disaster.

Plus, we'll start the first phase of partial data center migrations to a new industry-leading and environmentally protected underground co-location facility, creating vast new possibilities to expand capabilities, efficiencies and disaster readiness.

"DCI is very proactive. They understand our needs and are a true partner in what we are trying to accomplish.

— **Brad Gregory**
President/CEO, Bank of Bolivar, MO

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, 2018 and 2017, 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, 2018 and 2017, 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 25, 2019

Balance Sheets

December 31, 2018 and 2017

ASSETS	**2018**	**2017**
Current Assets		
Cash	$11,236,267	$9,312,814
Accounts receivable	3,520,407	3,091,837
Other receivables and prepaid expenses	3,706,810	3,005,070
Income taxes receivable	203,038	--
Inventory	36,416	120,467
Total current assets	18,702,938	15,530,188
Property & Equipment		
Land	254,787	254,787
Building and improvements	4,272,219	4,272,219
Equipment	9,255,782	9,191,413
	13,782,788	13,718,419
Less: accumulated depreciation and amortization	11,249,341	10,715,400
Total property and equipment	2,533,447	3,003,019
Other Assets & Software		
Other receivables and prepaid expenses	2,423,059	1,975,657
Software, less accumulated amortization of $9,590,784 and $8,287,903	9,109,744	10,363,094
Total other assets and software	11,532,803	12,338,751
Total assets	$32,769,188	$30,871,958

LIABILITIES AND STOCKHOLDERS' EQUITY	**2018**	**2017**
Current Liabilities		
Accounts payable	$506,576	$607,786
Accrued expenses	995,537	759,663
Accrued savings and retirement plan contribution	320,000	219,000
Income taxes payable	--	185,968
Deferred revenue	1,541,405	1,349,251
Total current liabilities	3,363,518	3,121,668
Other Liabilities		
Deferred income taxes	468,000	416,000
Total liabilities	3,831,518	3,537,668
Stockholders' Equity		
Common stock, $1 par value; authorized 500,000 shares, 104,655 outstanding in 2018 and 106,304 shares outstanding in 2017, net of shares held in treasury	421,768	421,768
Additional paid-in capital	4,413,473	3,326,673
Retained earnings	39,418,408	37,642,500
	44,253,649	41,390,941
Less treasury stock at cost; 317,113 and 315,464 shares in 2018 and 2017	15,315,979	14,056,651
Total stockholders' equity	28,937,670	27,334,290
Total liabilities and stockholders' equity	$32,769,188	$30,871,958

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

Statements of Income

Years ended December 31, 2018 and 2017

	2018	2017
Processing revenue, net	$30,925,196	$29,838,921
Operating expenses:		
Salaries and payroll tax	17,181,099	16,954,295
Other employee expense and benefits	4,139,165	4,012,473
Maintenance and processing	2,630,870	2,636,431
Occupancy	951,520	955,886
Depreciation and amortization	2,250,210	2,228,345
Administrative	1,051,585	1,175,266
Total operating expenses	28,204,449	27,962,696
Operating income	2,720,747	1,876,225
Other income (expense):		
Interest income, net	46,511	25,778
Rental income	126,920	134,544
Loss on disposal of software and equipment	--	(56,828)
Total other income	173,431	103,494
Income before income taxes	2,894,178	1,979,719
Provision for income taxes	710,000	243,000
Net income	$2,184,178	$1,736,719

Statements of Stockholders' Equity

Years ended December 31, 2018 and 2017

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
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
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**

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

Statements of Cash Flow

Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net income	$2,184,178	$1,736,719
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	2,250,210	2,228,345
Loss on disposal of software and equipment	--	56,828
Deferred income taxes	52,000	(481,000)
Changes in operating assets and liabilities:		
Accounts receivable	(428,570)	143,832
Other receivables and prepaid expenses	(1,149,142)	(1,032,751)
Income taxes	(389,006)	400,666
Inventory	84,051	(75,384)
Accounts payable	(101,210)	(202,920)
Accrued expenses	235,874	(30,669)
Accrued savings and retirement plan contribution	101,000	12,000
Deferred revenue	192,154	(83,538)
Net cash flow from operating activities	3,031,539	2,672,128
Cash flows from investing activities:		
Proceeds from sale of equipment	--	6,000
Purchase of property and equipment	(327,777)	(987,991)
Purchase of software	(199,511)	(397,148)
Net cash flow from investing activities	(527,288)	(1,379,139)
Cash flows from financing activities:		
Acquisition of treasury stock	(1,452,528)	--
Proceeds from sale of treasury stock	1,280,000	--
Dividend to shareholders	(408,270)	(249,814)
Net cash flow from financing activities	(580,798)	(249,814)
Net change in cash	1,923,453	1,043,175
Cash at beginning of year	9,312,814	8,269,639
Cash at end of year	$11,236,267	$9,312,814

Supplemental disclosures of cash flow information:

	2018	2017
Income tax payments net of refunds	$1,047,006	$323,334

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, 2018 and 2017.

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 $6,631,802 and $6,010,332 for 2018 and 2017, 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 $1,186,000 and $2,162,000 in 2018 and 2017, 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, maintenance fees and sales commissions; 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 $2,120,160 and $1,682,283 at December 31, 2018 and 2017, respectively, are generally unsecured, non-interest bearing and have repayment terms of up to 120 months. At December 31, 2018, 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. 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, 2018 and 2017 was $797,349 and $788,249, 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, 2018 and 2017 was $1,452,861 and $1,440,096, respectively.

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 for 2018 or 2017.

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, 2018 and 2017, the Company believes it does not have any material uncertain tax positions.

Accounting Standards not yet Adopted – *Revenue from Contracts with Customers* 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 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 eliminates 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 2020 year. The Company is currently evaluating the impact of the pending adoption of the new standard.

Financial Instruments - Credit Losses (also known as CECL) requires the measurement of expected credit losses (allowance for doubtful accounts) be based on historical experience, current conditions, and reasonable and supportable forecasts that affect the 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.

Subsequent Events – Subsequent events have been evaluated through January 25, 2019, 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, 2018 and 2017:

	2018	2017
Property, equipment and other assets	$(359,000)	$(474,000)
Prepaid expenses	(429,000)	(377,000)
Acquisition costs	15,000	16,000
State tax credits carryforward	305,000	419,000
Deferred tax liabilities	$(468,000)	$(416,000)

As of December 31, 2018, the Company has Kansas High Performance Incentive Program credits and Kansas research and development tax credits of $305,000 (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, 2018 and 2017 is as follows:

	2018	2017
Current	$658,000	$724,000
Deferred	52,000	(481,000)
Total	$710,000	$243,000

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 was a change is estimate attributed to the Tax Cuts and Jobs Act of 2017.

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, 2018, are as follows:

2019	$232,995
2020	65,906
2021	32,000

Total rental expense for all operating leases was $448,779 and $461,101 for the years ended December 31, 2018 and 2017, 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, 2018, are as follows:

2019	$110,120
2020	110,120

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 $859,501 and $760,377 for the years ended December 31, 2018 and 2017, respectively.

Directors

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Michael Cearley
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Centera Bank, KS

Randolph Johnston
CEO
NMGI, KS

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All America Bank, OK

Tim Kohart
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Sarah Fankhauser
EVP/COO

Dennis Queal
SVP/CFO

Sencer Tasan
SVP Network/Tech Services & CIO

Daren Fankhauser
SVP Chief Architect/CTO

Gerald Rempe
SVP Operations

Concha Duarte
VP Backroom Services

Susan Flores
VP Customer/Professional Services

Mark Harris
VP Marketing

Greg Horning
VP Customer Relationships

James Kitson
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Tanna Faulkner
VP Digital Channels

Karol Sauer
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Sandra Schmitt
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James West III
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