Texas NICUSA, LLC

Financial Statements

Stub Period Ended August 31, 2018

With Independent Auditor's Report

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MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To Board of Managers
of Texas NICUSA, LLC

We have audited the accompanying financial statements of Texas NICUSA, LLC (the "Company"), which comprise the balance sheet as of August 31, 2018, and the related statements of statements of income, changes in member's equity, and cash flows for the period 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of August 31, 2018, and the results of its operations and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

McConnell & Jones

Houston, Texas
July 30, 2019

Texas NICUSA, LLC
Balance Sheet
August 31, 2018

Assets	
Current assets	
Cash	$ 13,541,520
Trade accounts receivable, net	2,953,614
Prepaid expenses	81,738
Total current assets	16,576,872
Property and equipment, net	2,172
Deferred income taxes, net	205,036
Other assets	65,839
Total assets	$ 16,849,919
Liabilities and Member's Equity	
Current liabilities	
Accounts payable	$ 1,613,251
Accrued expenses	3,976,942
Total current liabilities	5,590,193
Other long-term liabilities	380,870
Total liabilities	5,971,063
Commitments and contingencies (Note 2, 6, 7 & 8)	
Member's equity	
Member's equity, 100 units outstanding	1,000
Additional paid-in equity	1,686,540
Accumulated earnings	32,524,779
Due from affiliated companies	(23,333,463)
Total member's equity	10,878,856
Total liabilities and member's equity	$ 16,849,919

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

Texas NICUSA, LLC
Statement of Income
Stub Period Ending August 31, 2018

Revenues	$ 48,860,386
Cost of revenues	33,193,003
Operating income before income taxes	15,667,383
Income tax expense (benefit):	
Current	3,817,419
Deferred	(204,759)
Net income	$ 12,054,723

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

Texas NICUSA, LLC
Statement of Changes in Member's Equity
Stub Period Ending August 31, 2018

	Member's Equity					
	Units	Amount	Additional Paid-in Capital	Accumulated Earnings	Due From Affiliated Companies	Total
Balance, January 1, 2018	100	$ 1,000	$1,611,627	$ 20,470,056	$ (7,734,703)	$14,347,980
Increase in due from affiliated	-	-	-	-	(15,598,760)	(15,598,760)
Noncash dividend declared	-	-	-	-	-	-
Stock-based compensation	-	-	74,913	-	-	74,913
Net income	-	-	-	12,054,723	-	12,054,723
Balance, August 31, 2018	100	$ 1,000	$1,686,540	$ 32,524,779	$(23,333,463)	$10,878,856

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

Texas NICUSA, LLC
Statement of Cash Flows
Stub Period Ending August 31, 2018

Cash flows from operating activities	
Net income	$ 12,054,723
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,050,428
Stock-based compensation expense	74,913
Deferred income taxes	(204,759)
Gain on disposal of assets	(54)
Provision for losses on accounts receivable	93,603
Changes in operating assets and liabilities:	
Accounts receivable, net	88,508
Prepaid expenses	716,970
Other current assets	66,375
Other assets	18,310
Accounts payable	1,044,017
Accrued expenses	(439,050)
Customer deposits	(458)
Unearned revenue	(6,967)
Deferred rent	(111,428)
Other long-term liabilities	(20,829)
Net cash provided by operating activities	14,424,302
Cash flows from investing activities	
Purchases of property and equipment	(36,670)
Net cash provided by investing activities	(36,670)
Cash flows from financing activities	
Payments to affiliated companies, net	(15,369,811)
Net cash used in financing activities	(15,369,811)
Net decrease in cash	(982,179)
Cash	
Beginning of year	14,523,699
End of year	$ 13,541,520

Supplemental cash flow information	
Taxes paid to affiliates	$ 3,817,419

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

1. The Company

Texas NICUSA, LLC, (the "Company"), was incorporated on May 4, 2009 to design, build and operate an internet-based portal and digital government services for the state of Texas (the "State") allowing businesses and citizens to complete digital transactions and obtain government information online. The Company is a wholly owned subsidiary of NICUSA, Inc. ("NICUSA"). NICUSA is a wholly owned subsidiary of NIC Inc. ("NIC"). The Company has an indefinite life, but it can be terminated at any point by its sole member, NICUSA. NICUSA is not liable for any debt, obligations, or liabilities of the Company. In addition, the liability of NICUSA is limited to the amount of NICUSA's capital contribution.

The Company's contract with the State to provide portal operations, maintenance and development services expired on August 31, 2018. The financial statements are prepared by the Company on the basis of the financial reporting provisions of the contract and represent the reporting period from January 1, 2018 to August 31, 2018. As such, the period ended August 31, 2018 is a stub year, comprised of an eight-month period.

2. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents primarily include cash on hand in the form of bank deposits. The Company considers all non-restricted highly liquid instruments purchased with an original maturity of one month or less to be cash equivalents.

Trade Accounts Receivable

The Company records trade accounts receivable at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts. The Company calculates this allowance based on its history of write-offs, the level of past-due accounts, and its relationship with, and the economic status of, its customers. Trade accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation and amortization is computed using the straight-line method over estimated useful lives of 8 years for furniture and fixtures, 3-10 years for equipment, 3-5 years for purchased software, and the lesser of the term of the lease or 5 years for leasehold improvements. 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 included in results of operations for the period. The cost of maintenance and repairs is charged to expense as incurred. Significant betterments are capitalized.

The Company periodically evaluates the carrying value of property and equipment to be held and used when events and circumstances indicate the carrying amount may not be fully recoverable. The carrying value of property and equipment is considered impaired when the anticipated undiscounted cash flow from the asset group is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset. Fair value is determined primarily using the anticipated cash flow discounted at a rate commensurate with the risk involved. Losses on assets to be disposed of are determined in a similar manner, except that fair values are reduced for the cost to dispose. The Company did not record any impairment losses on property and equipment in 2018.

Accrued Expenses

The Company estimates expenses which have been incurred but not yet paid or for which invoices have not yet been received. Significant components of accrued expenses consist primarily of employee vacation, payment processing fees, severance and miscellaneous other accruals.

Due to the expiration of the contract, the Company expects to substantially reduce its workforce in Texas. The total one-time severance-related costs related to this reduction were approximately $1.0 million at August 31, 2018.

Customer Deposits

The Company records amounts received that exceed amounts owed from customers for services provided in current liabilities on the balance sheet.

Deferred Rent

The Company accounts for certain operating leases containing predetermined fixed increases of the base rental rate during the lease term as rental expense on a straight-line basis over the lease term. The Company has recorded the difference between the amounts charged to operations and amounts payable under the leases as deferred rent in the accompanying balance sheet.

Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”), and all the related amendments, using the modified retrospective method for all contracts not completed as of the date of adoption. The adoption of ASC 606 represents a change in accounting principle for portal software development and services contracts that will more closely align revenue recognition with the delivery of Company's services, which under certain contracts will result in the recognition of revenue over time as opposed to at a point in time. Upon adoption, there was not a significant cumulative adjustment to retained earnings on the Company's balance sheet for this change in accounting principle. Under the modified retrospective method, the comparative information was not restated and continues to be reported under the accounting standards in effect for those periods. The impact to revenues for the year ended December 31, 2018 was not significant as a result of applying ASC 606.

Revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. Sales and usage based taxes, if applicable, are excluded from revenues.

The Company recognizes revenue from providing transaction-based services for outsourced digital government services. Under these contracts, the Company agrees to provide continuous access to digital government services that allow consumers to complete secure transactions, such as applying for a permit, retrieving government records, or filing a government-mandated form or report. The contractual promise to provide continuous access to each of these digital government services is a single stand-ready performance obligation. The fee is calculated based on the number of transactions processed which is not recognized until the transactions are processed and the services are provided. In most of its transaction-based revenue arrangements, the Company acts as an agent and recognizes revenue on a net basis.

Revenues from software development services provided to the State are generally combined into a single performance obligation. The contract pricing is either at stated billing rates per hour or a fixed amount. These contracts are generally short-term in nature and are recognized on a gross basis as the services are provided using an input method based on labor.

In connection with the revenues generated under the contract with the State, the Company is entitled to retain any revenues remaining after payment of all network operating expenses, statutory fees for retrieval of public information and various other expenses. The transaction fees that the Company collects on behalf of and must remit to state agencies for data access and other statutory fees are accrued as accounts payable at the time services are provided and generally must be remitted regardless of whether the Company ultimately collects the fees from its customers. As a result, trade accounts receivable and accounts payable reflect the gross amounts outstanding at the balance sheet date.

The Company records unearned revenues when cash payments are received or due in advance of the Company's satisfaction of the performance obligation(s). Amounts received prior to providing services are recorded as unearned revenue. The Company makes a determination as to the portion of unearned revenue that will be earned within one year and records that amount in current liabilities on the balance sheet. The remainder, if any, is recorded in long-term liabilities.

Cost of Revenues

The Company expenses as incurred the employee costs to develop, operate and maintain the government portal and digital government services as cost of revenues in the statement of income. Cost of revenues includes all direct costs associated with operating the State's portal and digital government services on an outsourced basis including employee compensation and benefits (including stock-based compensation), subcontractor labor costs, telecommunications, data processing, bank fees, fees required to process credit/debit card and automated clearinghouse transactions, maintenance, depreciation and all other costs associated with the provision of dedicated client service such as office facilities. As further described in Note 8, Related Party Transactions, cost of revenues also includes general and administrative expenses for certain services the Company receives from NIC and its affiliates.

Stock-Based Compensation

Eligible employees of the Company participate in NIC's stock compensation plan and stock purchase plan. The Company measures stock-based compensation cost at the grant date, based on the calculated fair value of the award, and recognizes an expense on a straight-line basis over the employee's requisite service period for the entire award (generally the vesting period of the grant).

Income Taxes

Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. NIC, along with its subsidiaries, files a consolidated federal income tax return. The provision for income taxes is allocated to the Company under the separate return method using the consolidated NIC federal tax rate; however, when the Company generates losses or credits, it is given benefit for such losses or credits as they are used by other members of the consolidated group. The Company is operating under a tax-sharing arrangement with NIC. Accordingly, the Company agrees to pay NIC the amount of any income tax for which the Company would have been liable or entitled to for that year, computed as though the Company had filed a separate tax return. As of August 31, 2018, the Company had no liability to NIC for federal or state income taxes.

The Company does not recognize a tax benefit for uncertain tax positions unless management's assessment concludes that it is "more likely than not" that the position is sustainable, based on its technical merits. If the recognition threshold is met, the Company recognizes a tax benefit based upon the largest amount of the tax benefit that is more likely than not probable, determined by cumulative probability, of being realized upon settlement with the taxing authority. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense in the statements of income. See Note 5 for additional information regarding the Company's liability for unrecognized tax benefits at the balance sheet dates.

Fair Value of Financial Instruments

The carrying values of the Company's accounts receivable and accounts payable approximate fair value.

Comprehensive Income

The Company has no components of other comprehensive income or loss and, accordingly, the Company's comprehensive income is the same as its net income for all periods presented.

Indemnification

Under the Company's contract with the State, the Company has agreed to fully indemnify the State against third party claims that the Company's services infringe upon the intellectual property rights of others and against claims arising from the Company's performance or the performance of the Company's subcontractors under the contract. The Company has not experienced such claims.

Accordingly, the Company had not accrued any liability on the aforementioned indemnification obligations at the balance sheet date.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States ("GAAP") 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.

Recent Accounting Pronouncements

The effective dates of the new accounting pronouncements described below represent those applicable to the Company's ultimate parent entity, NIC. The Company currently expects to adopt these new standards in the same periods as NIC.

<u>Credit Losses</u>

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, to replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade and other receivables, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. The ASU will be effective for NIC beginning January 1, 2020, with early adoption permitted beginning January 1, 2019. Application of the amendments is through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently evaluating the new standard and the estimated impact it may have on the Company's financial statements.

<u>Leases</u>

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will update the existing guidance on accounting for leases and require new qualitative and quantitative disclosures about the Company's leasing activities. The new standard requires the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. The ASU is effective for the annual reporting period beginning January 1, 2019 and requires a modified retrospective transition approach. The Company does not expect the adoption of this standard to have a material impact on the Company's financial statements.

Subsequent Events

The Company has performed an evaluation of subsequent events for potential recognition or disclosure through July 30, 2019, the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

3. Concentration Risks

Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and accounts receivable. The Company limits its exposure to credit loss by depositing its cash with high credit quality financial institutions and monitoring the financial stability of those institutions. The Federal Deposit Insurance Corporation ("FDIC") provides deposit insurance coverage up to $250,000 per depositor for deposit accounts at each FDIC-insured depository institution. At August 31, 2018, the amount of cash covered by FDIC deposit insurance was $250,000 and $13,293,263 of cash was above the FDIC deposit insurance limit. The Company performs ongoing credit evaluations of its customers and generally requires no collateral to secure accounts receivable. The Company performs ongoing credit evaluations of its customers and generally requires no collateral to secure accounts receivable. At August 31, 2018, the Company's allowance for doubtful accounts was $78,498. The Company considers its remaining accounts receivable to be fully collectible. The Company did not experience any significant credit losses for the periods reported.

Service Risk

The Company provides a motor vehicle inspection service for the Department of Public Safety. This service accounted for approximately 36% of the Company's revenues for the eight-month period ended August 31, 2018. In addition, the Company offers access to driver history records (referred to as DHR) through the portal. This service accounted for approximately 23% of the Company's revenues for the eight-month period ended August 31, 2018. The Company also provides an online vehicle registration renewal service. This service accounted for approximately 11% of the Company's revenues for the eight-month period ended August 31, 2018.

Customer Risk

A primary source of revenue is derived from data resellers, who use the portal to access DHR records for the auto insurance industry. For the eight-month period ended August 31, 2018, the Company derived 12% of its revenues from one data reseller. At August 31, 2018, approximately 47% of the Company's accounts receivable were due from two State agencies.

4. Property and Equipment

Property and equipment consisted of the following at August 31, 2018:

Furniture and fixtures	$ 706,240
Equipment	7,978,907
Purchased software	1,271,833
Leasehold improvements	139,549
	10,096,529
Less accumulated depreciation	(10,094,357)
	$ 2,172

Depreciation expense for the period ended August 31, 2018 was $1,050,428.

5. Income Taxes

For the eight-month period ended August 31, 2018, the Company's effective tax rate was 23%. At August 31, 2018, the Company had net deferred tax assets of $205,036. Deferred tax assets and liabilities resulted primarily from differences between book and tax depreciation, deferred rent, stock-based compensation and accrued but unused employee vacation expense. Management believes NIC's consolidated taxable income in the future will more likely than not be sufficient to utilize the Company's net deferred tax asset.

A reconciliation of the beginning and ending amount of the liability for unrecognized income tax benefits (included in other long-term liabilities in the balance sheet) for the eight-month period ended August 31, 2018 is as follows:

Balance at beginning of year	$	401,700
Additions for tax positions of prior years		36,514
Reductions for tax positions of prior years		(57,344)
Balance at end of year	$	380,870

It is expected that the amount of unrecognized tax benefits will change in the next 12 months. However, the Company does not expect the change to have a significant impact on its results of operations or financial condition.

The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of income tax expense in the statement of income. At August 31, 2018, accrued interest and penalty amounts were not material.

State income tax returns are subject to examination for a period of four years after filing of the respective return.

6. Letter of Credit

The Company has issued an irrevocable letter of credit to secure its office space in the amount of $788,134, which was unused at August 31, 2018. The letter expired on December 31, 2018.

7. Operating Leases

The Company leases its office space and certain equipment under noncancelable operating leases. The lease for office space is tied to the period of performance under the Company’s contract with the State. The future minimum lease payments under all noncancelable operating leases at August 31, 2018 were approximately $93,000, which expired in 2018.

Operating lease expense for the eight-month period ended August 31, 2018 was approximately $621,000.

8. Related Party Transactions

The balance due from affiliated companies at August 31, 2018 consisted primarily of cash advanced to affiliates, reduced by the payment of operating expenses paid by the affiliates on behalf of the Company. The average balance due from affiliated companies during the period ended August 31, 2018 was approximately $15,444,000.

The Company receives certain general and administrative services from NIC and its affiliates. Such services are performed on a centralized basis, benefit all affiliates and include, among others, executive and operations management, technical consultation, human resource management, information technology, use of intellectual property, security, legal, accounting support and payroll processing. NIC charges the Company for such services based on an allocation methodology which NIC management believes fairly allocates amounts based on benefits received. For the eight-month period ended August 31, 2018, the Company recognized approximately $2,298,000 in expense related to these services, which is included in cost of revenues in the statement of income. Due to the nature of these related party charges, it is not practicable to estimate what the Company's costs would have been on a stand-alone basis to provide these services. Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed, or the results of operations that would have occurred, if the Company had operated as an independent entity to provide these services.

The Company's ultimate parent company, NIC, maintains a $10 million unsecured revolving credit agreement, which is available to finance working capital, issue letters of credit, and finance general corporate purposes. The Company and other wholly owned subsidiaries of NICUSA and NIC have guaranteed the obligations of NIC in connection with this credit agreement. At August 31, 2018, NIC had no principal amounts of indebtedness outstanding under the credit agreement.

9. Employee Benefit Plans

For the eight-month period ended August 31, 2018, the Company recognized approximately $75,000 in stock-based compensation expense for the NIC stock compensation and employee stock purchase plans, in which the Company's employees participated, in cost of revenues in the statement of income and in member's equity on the balance sheet, representing a capital contribution from NIC.

Restricted Stock Plan

The NIC stock compensation plan provides for the granting of incentive stock options, non-qualified stock options and restricted stock awards to encourage certain employees of NIC and its subsidiaries to participate in the ownership of NIC and to provide additional incentive for such employees to promote the success of its business through sharing in the future growth of such business. NIC did not grant any stock options in 2018. Unvested restricted stock awards contain non-forfeitable rights to dividends declared by NIC. Restricted stock awards vest beginning one year from the date of grant in annual installments of 25%.

During 2018, the Compensation Committee of the Board of Directors of NIC granted to certain Company employees service-based restricted stock awards with a grant-date fair value totaling approximately $50,000. At August 31, 2018, the Company had approximately $167,000 of total unrecognized compensation cost related to nonvested restricted stock awards. Any cost expected to be associated with these awards we be recognized within the next twelve months.

Employee Stock Purchase Plan

Terms of the employee stock purchase plan permit eligible employees to purchase NIC common stock through payroll deductions up to the lesser of 15% of each employee's compensation or $25,000. Amounts deducted and accumulated by the participant are used to purchase shares of NIC's common stock at 85% of the lower of the fair value of the common stock at the beginning or the end of the offering period, as defined in the plan.

Defined Contribution 401(k) Profit Sharing Plan

NIC, in conjunction with affiliated companies, sponsors a defined contribution 401(k) profit sharing plan. In accordance with the plan, all full-time employees are eligible immediately upon employment and non-full time employees are eligible upon reaching 1,000 hours of service in the relevant period. A discretionary match of an employee's contribution of up to 5% of an employee's base salary and a discretionary contribution may be made to the plan as determined by NIC's Board of Directors. Expense related to Company matching contributions totaled approximately $144,000 for the eight-month period ended August 31, 2018. No discretionary contributions were made for the period ended August 31, 2018.

Texas NICUSA, LLC

Schedule of Local Funds Revenue

Stub Period Ended August 31, 2018

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MJ
McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To Board of Managers
of Texas NICUSA, LLC

We have audited the accompanying schedule of non-USAS revenue of Texas NICUSA, LLC (the "Company") for the period ended August 31, 2018, and the related notes to the schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the schedule 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 schedule that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this schedule based on our audit. We conducted our audit 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 schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, 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 schedule 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 schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the schedule referred to above present fairly, in all material respects, the state revenue share of the Company as of August 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Company as of and for the period ended August 31, 2018, and our report thereon, dated July 30, 2019, expressed an unmodified opinion on those financial statements.

McConnell & Jones

Houston, Texas
July 30, 2019

Texas NICUSA, LLC Local Funds
Schedule of Local Funds Review
August 31, 2018

Agency or Local Authority	Service Description	2018
Crosby County	Crosby County Tx Pay Counter Instance	$ 1,136
Dallam County	Dallam County Tx Pay Counter Instance	-
Helotes, City of	City of Helotes Booth Rental	-
Helotes, City of	City of Helotes Health Permit	-
Helotes, City of	City of Helotes Pet Registration	-
Jasper County	Jasper County Tx Pay Counter Instance	1,829
Liberty County	Liberty County Probation Fees	-
San Antonio River Authority	San Antonio River Authority Reservation System	552
Texas Department Criminal Justice	TDCJ e-CommDirect	1,738,743
University of Texas	University of Texas COBRA	60,880
University of Texas	UTBB Retirees	5,598
University of Texas	UT Medical & Dental Schools Application	24,433
Val Verde County	Val Verde Government Payments	23,496
Wilson County	Wilson Count Tx Pay Counter Instance	2,777
	Total Local Funds Revenue	$1,859,444

1. The Company

Texas NICUSA, LLC, (the “Company”), was incorporated on May 4, 2009 to design, build and operate an internet-based portal and digital government services for the state of Texas (the “State”) allowing businesses and citizens to complete digital transactions and obtain government information online. The Company is a wholly owned subsidiary of NICUSA, Inc. (“NICUSA”). NICUSA is a wholly owned subsidiary of NIC Inc. (“NIC”). The Company has an indefinite life, but it can be terminated at any point by its sole member, NICUSA. NICUSA is not liable for any debt, obligations, or liabilities of the Company. In addition, the liability of NICUSA is limited to the amount of NICUSA’s capital contribution.

The Company’s contract with the State to provide portal operations, maintenance and development services expired on August 31, 2018. The financial statements are prepared by the Company on the basis of the financial reporting provisions of the contract and represent the reporting period from January 1, 2018 to August 31, 2018. As such, the period ended August 31, 2018 is a stub year, comprised of an eight-month period.

2. Local Funds Revenue

Local funds revenue is defined as any service operated by the Company where the revenue generated from the transaction does not flow directly from the customer to the State of Texas Comptroller’s Uniform Statewide Accounting System. For these services, funds are distributed to the appropriate agency according to terms of the respective agreement.

3. Summary of Significant Accounting Policies

Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”), and all the related amendments, using the modified retrospective method for all contracts not completed as of the date of adoption. The adoption of ASC 606 represents a change in accounting principle for portal software development and services contracts that will more closely align revenue recognition with the delivery of Company’s services, which under certain contracts will result in the recognition of revenue over time as opposed to at a point in time. Upon adoption, there was not a significant cumulative adjustment to retained earnings on the Company’s balance sheet for this change in accounting principle. Under the modified retrospective method, the comparative information was not restated and continues to be reported under the accounting standards in effect for those periods. The impact to revenues for the year ended December 31, 2018 was not significant as a result of applying ASC 606.

Revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. Sales and usage based taxes, if applicable, are excluded from revenues.

The Company recognizes revenue from providing transaction-based services for outsourced digital government services. Under these contracts, the Company agrees to provide continuous access to digital government services that allow consumers to complete secure transactions, such as applying for a permit, retrieving government records, or filing a government-mandated form or report. The contractual promise to provide continuous access to each of these digital government services is a single stand-ready performance obligation. The fee is calculated based on the number of transactions processed which is not recognized until the transactions are processed and the services are provided. In most of its transaction-based revenue arrangements, the Company acts as an agent and recognizes revenue on a net basis.

Revenues from software development services provided to the State are generally combined into a single performance obligation. The contract pricing is either at stated billing rates per hour or a fixed amount. These contracts are generally short-term in nature and are recognized on a gross basis as the services are provided using an input method based on labor.

In connection with the revenues generated under the contract with the State, the Company is entitled to retain any revenues remaining after payment of all network operating expenses, statutory fees for retrieval of public information and various other expenses. The transaction fees that the Company collects on behalf of and must remit to state agencies for data access and other statutory fees are accrued as accounts payable at the time services are provided and generally must be remitted regardless of whether the Company ultimately collects the fees from its customers. As a result, trade accounts receivable and accounts payable reflect the gross amounts outstanding at the balance sheet date.

The Company records unearned revenues when cash payments are received or due in advance of the Company's satisfaction of the performance obligation(s). Amounts received prior to providing services are recorded as unearned revenue. The Company makes a determination as to the portion of unearned revenue that will be earned within one year and records that amount in current liabilities on the balance sheet. The remainder, if any, is recorded in long-term liabilities.

Indemnification

Under the Company's contract with the State, the Company has agreed to fully indemnify the State against third party claims that the Company's services infringe upon the intellectual property rights of others and against claims arising from the Company's performance or the performance of the Company's subcontractors under the contract. The Company has not experienced such claims. Accordingly, the Company had not accrued any liability on the aforementioned indemnification obligations at the balance sheet date.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of local funds revenue during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Company has performed an evaluation of subsequent events for potential recognition or disclosure through July 30, 2019, the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Texas NICUSA, LLC

Schedule of State Revenue Share

Stub Period Ended August 31, 2018

With Independent Auditor's Report

Texas NICUSA, LLC State Revenue Share
Index
August 31, 2018

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To Board of Managers
of Texas NICUSA, LLC

We have audited the accompanying schedule of state revenue share of Texas NICUSA, LLC (the "Company") for the period ended August 31, 2018, and the related notes to the schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the schedule 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 schedule that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this schedule based on our audit. We conducted our audit 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 schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, 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 schedule 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 schedule.

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 schedule referred to above present fairly, in all material respects, the state revenue share of the Company as of August 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

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Suite 1000
Houston, Texas 77081
Phone: 713.968.1600
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Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Company as of and for the period ended August 31, 2018, and our report thereon, dated July 30, 2019, expressed an unmodified opinion on those financial statements.

McConnell & Jones

Houston, Texas
July 30, 2019

Texas NICUSA, LLC
Schedule of State Revenue Share
Stub Period Ended August 31, 2018

Revenue	$	70,394,264
Excluded revenue		(1,383,888)
		69,010,376
Less:		
Credit card and ACH fees		15,148,733
Credit card and ACH fees related to excluded revenue		(579)
Total credit and ACH fees		15,148,154
Total revenue		53,862,222
State share percentage		40%
State share of total revenue	$	21,544,889

1. The Company

Texas NICUSA, LLC, (the "Company"), was incorporated on May 4, 2009 to design, build and operate an internet-based portal and digital government services for the state of Texas (the "State") allowing businesses and citizens to complete digital transactions and obtain government information online. The Company is a wholly owned subsidiary of NICUSA, Inc. ("NICUSA"). NICUSA is a wholly owned subsidiary of NIC Inc. ("NIC"). The Company has an indefinite life, but it can be terminated at any point by its sole member, NICUSA. NICUSA is not liable for any debt, obligations, or liabilities of the Company. In addition, the liability of NICUSA is limited to the amount of NICUSA's capital contribution.

The Company's contract with the State to provide portal operations, maintenance and development services expired on August 31, 2018. The financial statements are prepared by the Company on the basis of the financial reporting provisions of the contract and represent the reporting period from January 1, 2018 to August 31, 2018. As such, the period ended August 31, 2018 is a stub year, comprised of an eight-month period.

2. State Share of Total Revenue

Per the terms of the contract between the Company and the State, the State is entitled to 40% of Total Revenue. This is referred to as "Revenue Share" or "State Share of Total Revenue". Total Revenue is contractually defined as the total amounts received from transaction revenue and service revenue (less credit card and ACH fees, and other specific "pass-through" costs as approved by the Texas Department of Information Resources) and does not include statutory fees charged by State agencies and local government to the users of TexasOnline 2.0 or other government revenues collected in connection with the transactions. As defined in business cases between the Company and the Texas Department of Information Resources, a specific set of services and/or transactions are excluded from Total Revenue for the purpose of calculating Revenue Share (referred to as "Excluded Revenue").

3. Summary of Significant Accounting Policies

Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"), and all the related amendments, using the modified retrospective method for all contracts not completed as of the date of adoption. The adoption of ASC 606 represents a change in accounting principle for portal software development and services contracts that will more closely align revenue recognition with the delivery of Company's services, which under certain contracts will result in the recognition of revenue over time as opposed to at a point in time. Upon adoption, there was not a significant cumulative adjustment to retained earnings on the Company's balance sheet for this change in accounting principle. Under the modified retrospective method, the comparative information was not restated and continues to be reported under the accounting standards in effect for those periods. The impact to revenues for the stub period ended August 31, 2018 was not significant as a result of applying ASC 606.

Revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. Sales and usage based taxes, if applicable, are excluded from revenues.

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The Company records unearned revenues when cash payments are received or due in advance of the Company's satisfaction of the performance obligation(s). Amounts received prior to providing services are recorded as unearned revenue. The Company makes a determination as to the portion of unearned revenue that will be earned within one year and records that amount in current liabilities on the balance sheet. The remainder, if any, is recorded in long-term liabilities.

Credit Card and ACH Fees

The Company expenses as incurred the fees required to process credit/debit card and automated clearinghouse transactions.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States ("GAAP") 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.

Subsequent Events

The Company has performed an evaluation of subsequent events for potential recognition or disclosure through July 30, 2019, the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.