

**XTEND, INC.**

**FINANCIAL STATEMENTS**

September 30, 2018 and 2017

XTEND, INC.  
Grand Rapids, Michigan

FINANCIAL STATEMENTS  
September 30, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders  
Xtend, Inc.  
Grand Rapids, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of Xtend, Inc., which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Xtend, Inc. as of September 30, 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.

*Crowe LLP*

Crowe LLP

Grand Rapids, Michigan  
November 13, 2018

XTEND, INC.  
BALANCE SHEETS  
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 936,524	\$ 833,994
Certificates of deposit	493,076	497,842
Accounts receivable	216,370	226,597
Accounts receivable - related party (Note 6)	36,402	36,690
Prepaid expenses	61,966	46,178
Income taxes receivable	<u>23,900</u>	<u>-</u>
Total current assets	1,768,238	1,641,301
Property, plant and equipment		
Equipment	67,494	29,912
Furniture and fixtures	105,399	105,399
Capital leases	47,048	31,766
Leasehold improvements	1,200	1,200
Software	<u>29,794</u>	<u>29,794</u>
	250,935	198,071
Less accumulated depreciation and amortization	<u>(165,271)</u>	<u>(160,020)</u>
	<u>85,664</u>	<u>38,051</u>
	<u>\$ 1,853,902</u>	<u>\$ 1,679,352</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 25,067	\$ 35,608
Accounts payable - related party (Note 6)	16,597	14,911
Current portion of capital lease obligation	14,151	4,440
Other liabilities	94,454	72,397
Income taxes payable	-	15,900
Deferred revenue	<u>14,292</u>	<u>-</u>
Total current liabilities	164,561	143,256
Long-term liabilities		
Capital lease obligation	17,343	8,584
Deferred income taxes (Note 4)	<u>28,600</u>	<u>16,800</u>
	45,943	25,384
Stockholders' equity		
Common stock - no par value, 60,000 shares authorized, shares issued and outstanding: 16,000 and 16,200 at September 30, 2018 and 2017, respectively	1,238,253	1,215,706
Retained earnings	<u>405,145</u>	<u>295,006</u>
	<u>1,643,398</u>	<u>1,510,712</u>
	<u>\$ 1,853,902</u>	<u>\$ 1,679,352</u>

See accompanying notes to financial statements.

XTEND, INC.  
STATEMENTS OF INCOME  
Years ended September 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>Revenues</b>	\$ 3,195,944	\$ 2,998,762
Cost of sales	<u>392,239</u>	<u>242,653</u>
<b>Gross margin</b>	2,803,705	2,756,109
Operating expenses	<u>2,557,766</u>	<u>2,536,085</u>
<b>Income before other income (expense) and income taxes</b>	245,939	220,024
Other income (expense)		
Interest income	7,981	5,430
Gain (loss) on disposal of assets	<u>325</u>	<u>(361)</u>
	<u>8,306</u>	<u>5,069</u>
<b>Income before income taxes</b>	254,245	225,093
Provision for income taxes (Note 4)	<u>69,462</u>	<u>72,201</u>
<b>Net income</b>	<u>\$ 184,783</u>	<u>\$ 152,892</u>

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See accompanying notes to financial statements.

XTEND, INC.  
 STATEMENTS OF STOCKHOLDERS' EQUITY  
 Years ended September 30, 2018 and 2017

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	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance, October 1, 2016</b>	\$ 1,246,342	\$ 184,539	\$ 1,430,881
Issuance of 200 shares of common stock	37,500	-	37,500
Redemption of 800 shares of common stock	(68,136)		(68,136)
Dividends declared	-	(42,425)	(42,425)
Net income	<u>-</u>	<u>152,892</u>	<u>152,892</u>
<b>Balance, September 30, 2017</b>	1,215,706	295,006	1,510,712
Issuance of 400 shares of common stock	78,500	-	78,500
Redemption of 600 shares of common stock	(55,953)	-	(55,953)
Dividends declared	-	(74,644)	(74,644)
Net income	<u>-</u>	<u>184,783</u>	<u>184,783</u>
<b>Balance, September 30, 2018</b>	<u>\$ 1,238,253</u>	<u>\$ 405,145</u>	<u>\$ 1,643,398</u>

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See accompanying notes to financial statements.

XTEND, INC.  
 STATEMENTS OF CASH FLOWS  
 Years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 184,783	\$ 152,892
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	27,204	31,101
Deferred income taxes	11,800	(700)
(Gain) loss on disposal of assets	(325)	361
Change in assets and liabilities		
Accounts receivable	10,227	32,073
Accounts receivable - related party	288	7,143
Prepaid expenses	(15,788)	13,839
Accounts payable	(10,541)	(1,962)
Accounts payable - related party	1,686	(9,410)
Income taxes	(39,800)	3,900
Other liabilities	22,057	(265)
Deferred revenue	<u>14,292</u>	<u>(38,500)</u>
Net cash from operating activities	205,883	190,472
 <b>Cash flows used in investing activities</b>		
Proceeds from sale of property and equipment	401	-
Certificates of deposit	4,766	(2,616)
Purchases of property and equipment	<u>(45,843)</u>	<u>(1,166)</u>
Net cash used in investing activities	(40,676)	(3,782)
 <b>Cash flows used in financing activities</b>		
Dividends paid	(74,644)	(42,425)
Redemption of stock	(55,953)	(68,136)
Proceeds from issuance of common stock	78,500	37,500
Payments on capital lease obligations	<u>(10,580)</u>	<u>(7,643)</u>
Net cash used in financing activities	<u>(62,677)</u>	<u>(80,704)</u>
 Net change in cash and cash equivalents	102,530	105,986
 Cash and cash equivalents at beginning of year	<u>833,994</u>	<u>728,008</u>
 <b>Cash and cash equivalents at end of year</b>	<u>\$ 936,524</u>	<u>\$ 833,994</u>
 Supplemental disclosure of cash flow information		
Income taxes paid	\$ 97,462	\$ 69,000
 Supplemental disclosures of non-cash investing and financing activities		
Capital lease obligation entered into during the year	\$ 29,050	\$ -

See accompanying notes to financial statements.



XTEND, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

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**NOTE 1 - NATURE OF BUSINESS**

Nature of Business: Xtend, Inc. ("the Company") was organized for the purpose of providing and/or coordinating resources and opportunities for the credit union industry. The Company provides managerial, operational and technical planning and consulting, outsourcing of technical and human resources, and coordination of marketing efforts for financial services located primarily in Michigan. Revenue is recognized based on billings to customers as services are performed.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

Statement of Cash Flows: For the purpose of the statement of cash flows, cash and cash equivalents includes demand deposit accounts, savings accounts, money market accounts and instruments purchased with a maturity of three months or less. The Company frequently has deposits in excess of \$250,000 at various financial institutions, some of which are also shareholders.

Certificates of Deposit: Certificates of deposit consist of bank time deposits with original maturity dates greater than 90 days and with remaining maturity dates of less than 365 days. These certificates of deposit have a fixed rate of interest which is paid upon maturity. They may not be redeemed before the maturity date without a penalty and are not transferable.

Accounts Receivable: The Company sells to customers using credit terms customary in its industry. Interest is not normally charged on receivables. Management establishes a reserve for losses on its accounts based on historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. These financial statements contain no allowance for doubtful accounts since management expects that receivables are fully collectible.

Property and Equipment: Property and equipment are stated at cost. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the assets. Leasehold improvements are depreciated over the estimated useful life or lease term, whichever is less. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized.

Advertising: The Company expenses advertising costs as incurred. Advertising costs for the years ended September 30, 2018 and 2017 were \$11,453 and \$5,277, respectively.

Income Taxes: The Company is a taxable corporation for federal income tax purposes. The Company records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, using enacted tax rates.

Uncertain tax positions are recognized and measured under provisions of FASB ASC 740. These provisions require the Company to recognize a tax benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

The Company recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. There were no amounts expensed or accrued as of and for the years ended September 30, 2018 and 2017 for tax related interest and penalties.

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(Continued)

XTEND, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company is no longer subject to examination for federal tax years before 2014 and for state income taxes before 2013. The Company does not expect that total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2018 to determine the need for any adjustments to and/or disclosures within these financial statements for the year ended September 30, 2018. Management has performed their analysis through November 13, 2018, the date the financial statements were available for issuance and has determined that there are no subsequent events to disclose.

**NOTE 3 - CAPITAL STOCK**

The Company has issued common stock with all shares having voting rights and containing transfer restrictions.

The Company is obligated to purchase shares of withdrawing stockholders within 60 days of the stockholders' written request. The purchase price of the stock is the book value of the stock as of the end of the prior fiscal year. The Company does not have any purchase obligations as of September 30, 2018 and 2017.

**NOTE 4 - INCOME TAXES**

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

	<u>2018</u>	<u>2017</u>
Current federal and state income tax expense	\$ 57,662	\$ 72,901
Deferred federal and state income tax (benefit) expense	17,100	(700)
Benefit of Tax Reform	<u>(5,300)</u>	<u>-</u>
	<u>\$ 69,462</u>	<u>\$ 72,201</u>

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act reduces the Company's federal tax rate to 21% effective January 1, 2018. As a result, the Company is required to re-measure the deferred tax assets and liabilities using the enacted rate at which the Company expects them to be recovered or settled. The effect of this re-measurement is recorded to provision (benefit) for income taxes in the year the tax law is enacted. For the year ended September 30, 2018, the re-measurement of the net deferred tax liability resulted in an additional income tax benefit of approximately \$5,300.

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XTEND, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

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**NOTE 4 - INCOME TAXES** (Continued)

Deferred tax assets and liabilities are as follows:

	<u>2018</u>	<u>2017</u>
Deferred tax assets	\$ 1,000	\$ 12,400
Deferred tax liabilities	<u>(29,600)</u>	<u>(29,200)</u>
	<u>\$ (28,600)</u>	<u>\$ (16,800)</u>

The effective rate for federal income tax differs from the statutory rate due to the effect of various nondeductible expenses.

Deferred tax assets and liabilities result from temporary differences between financial statements and tax returns for the recognition of prepaid expenses and accumulated depreciation.

**NOTE 5 - CAPITAL LEASE**

The Corporation is obligated under a capital lease agreement for computer related equipment. Lease payments are generally due monthly and expire in January, 2021. Assets recorded under the capital lease amount to the following:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 47,048	\$ 31,766
Accumulated depreciation	<u>(15,777)</u>	<u>(18,634)</u>
	<u>\$ 31,271</u>	<u>\$ 13,132</u>

Future minimum lease payments due under the capital lease with initial or remaining noncancelable lease terms in excess of one year are as follows:

2019	\$ 15,183
2020	14,375
2021	<u>3,443</u>
	33,001
Less amounts representing interest	<u>(1,507)</u>
	31,494
Current portion of capital lease obligation	<u>14,151</u>
Long-term portion of capital lease obligation	<u>\$ 17,343</u>

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XTEND, INC.  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2018 and 2017

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**NOTE 6 - RELATED PARTY TRANSACTIONS**

The Company provides services to all of its stockholders. Revenues from transactions with stockholders constituted 58% and 46% of total revenues during the years ended September 30, 2018 and 2017, respectively. At September 30, 2018 and 2017, 69% and 58%, respectively, of the Company's accounts receivable were from its stockholders. Cash and cash equivalents held at stockholder credit unions totaled approximately \$815,000 and \$649,000 at September 30, 2018 and 2017, respectively.

Operational support services are provided to the Company by a stockholder and renewed on an annual basis. Services under the agreement include the use of office space, computer equipment, and shared services which the Company incurred expenses of approximately \$131,112 and \$183,153 for the years ended September 30, 2018 and 2017, respectively. The Company has entered into an agreement to continue these services for \$10,926 per month from October 1, 2017 through September 30, 2018. Management has the intent to continue the management services agreement, which includes a related rent charge, for an indefinite period of time. The Company also has the ability to lease employees from this stockholder, and is invoiced monthly for the actual costs incurred. The Company provides services to this stockholder in the normal course of business. Sales were approximately \$491,701 and \$432,613 during the years ended September 30, 2018 and 2017, respectively. At September 30, 2018 and 2017, amounts due from this stockholder included in accounts receivable - related party were \$36,402 and \$36,690, respectively. The Company also had accounts payable due to this stockholder of \$16,597 and \$14,911 at September 30, 2018 and 2017, respectively.