

XTEND, INC.

FINANCIAL STATEMENTS
September 30, 2020 and 2019

XTEND, INC.
Grand Rapids, Michigan

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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, 2020 and 2019, 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.

(Continued)

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, 2020 and 2019, 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 17, 2020

XTEND, INC.
BALANCE SHEETS
September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,376,894	\$ 1,093,161
Certificates of deposit	490,105	496,419
Accounts receivable	282,555	251,443
Accounts receivable - related party (Note 6)	44,888	44,467
Prepaid expenses	95,109	93,200
Income taxes receivable	<u>38,998</u>	<u>4,800</u>
Total current assets	2,328,549	1,983,490
Property, plant and equipment		
Equipment	68,604	68,552
Furniture and fixtures	167,611	105,399
Capital leases	93,495	47,048
Leasehold improvements	1,200	1,200
Software	<u>29,794</u>	<u>29,794</u>
	360,704	251,993
Less accumulated depreciation and amortization	<u>(220,866)</u>	<u>(195,065)</u>
	<u>139,838</u>	<u>56,928</u>
	<u>\$ 2,468,387</u>	<u>\$ 2,040,418</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 26,953	\$ 19,568
Accounts payable - related party (Note 6)	20,582	29,305
Current portion of capital lease obligation	22,951	13,930
Dividend accrual	213,885	90,224
Other liabilities	172,178	130,902
Deferred revenue	<u>6,578</u>	<u>7,168</u>
Total current liabilities	463,127	291,097
Long-term liabilities		
Capital lease obligation	31,797	3,413
Deferred income taxes (Note 4)	<u>48,500</u>	<u>29,600</u>
	80,297	33,013
Stockholders' equity		
Common stock - no par value, 60,000 shares authorized, shares issued and outstanding: 16,000 at September 30, 2020 and 2019	1,310,893	1,258,800
Retained earnings	<u>614,070</u>	<u>457,508</u>
	<u>1,924,963</u>	<u>1,716,308</u>
	<u>\$ 2,468,387</u>	<u>\$ 2,040,418</u>

See accompanying notes to financial statements.

XTEND, INC.
STATEMENTS OF INCOME
Years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues	\$ 3,996,544	\$ 3,415,534
Cost of sales	<u>296,218</u>	<u>280,901</u>
Gross margin	3,700,326	3,134,633
Operating expenses	<u>3,219,822</u>	<u>2,845,300</u>
Income before other income and income taxes	480,504	289,333
Other income		
Interest income	<u>8,443</u>	<u>12,084</u>
Income before income taxes	488,947	301,417
Provision for income taxes (Note 4)	<u>118,500</u>	<u>77,400</u>
Net income	<u>\$ 370,447</u>	<u>\$ 224,017</u>

See accompanying notes to financial statements.

XTEND, INC.
 STATEMENTS OF STOCKHOLDERS' EQUITY
 Years ended September 30, 2020 and 2019

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, October 1, 2018	\$ 1,238,253	\$ 405,145	\$ 1,643,398
Issuance of 200 shares of common stock	41,000	-	41,000
Redemption of 200 shares of common stock	(20,453)		(20,453)
Dividends declared	-	(171,654)	(171,654)
Net income	<u>-</u>	<u>224,017</u>	<u>224,017</u>
Balance, September 30, 2019	1,258,800	457,508	1,716,308
Issuance of 400 shares of common stock	95,000	-	95,000
Redemption of 400 shares of common stock	(42,907)	-	(42,907)
Dividends declared	-	(213,885)	(213,885)
Net income	<u>-</u>	<u>370,447</u>	<u>370,447</u>
Balance, September 30, 2020	<u>\$ 1,310,893</u>	<u>\$ 614,070</u>	<u>\$ 1,924,963</u>

See accompanying notes to financial statements.

XTEND, INC.
STATEMENTS OF CASH FLOWS
Years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Net income	\$ 370,447	\$ 224,017
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	51,903	30,644
Deferred income taxes	18,900	1,000
Change in assets and liabilities		
Accounts receivable	(31,112)	(35,073)
Accounts receivable - related party	(421)	(8,065)
Prepaid expenses	(1,909)	(31,234)
Accounts payable	7,385	(5,499)
Accounts payable - related party	(8,723)	12,708
Income taxes	(34,198)	19,100
Other liabilities	41,276	36,448
Deferred revenue	<u>(590)</u>	<u>(7,124)</u>
Net cash from operating activities	412,958	236,922
 Cash flows used in investing activities		
Certificates of deposit	6,314	(3,343)
Purchases of property and equipment	<u>(70,368)</u>	<u>(1,908)</u>
Net cash used in investing activities	(64,054)	(5,251)
 Cash flows used in financing activities		
Dividends paid	(90,224)	(81,430)
Redemption of stock	(42,907)	(20,453)
Proceeds from issuance of common stock	95,000	41,000
Payments on capital lease obligations	<u>(27,040)</u>	<u>(14,151)</u>
Net cash used in financing activities	<u>(65,171)</u>	<u>(75,034)</u>
 Net change in cash and cash equivalents	283,733	156,637
 Cash and cash equivalents at beginning of year	<u>1,093,161</u>	<u>936,524</u>
 Cash and cash equivalents at end of year	<u>\$ 1,376,894</u>	<u>\$ 1,093,161</u>
 Supplemental disclosure of cash flow information		
Income taxes paid	\$ 133,800	\$ 57,300
 Supplemental disclosures of non-cash investing and financing activities		
Capital lease obligation entered into during the year	\$ 64,445	\$ -
Financing activity - dividends declared	213,885	90,224

See accompanying notes to financial statements.

XTEND, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020 and 2019

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, 2020 and 2019 were \$1,211 and \$6,065, 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, 2020 and 2019 for tax related interest and penalties.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company is no longer subject to examination for federal tax years before 2016 and for state income taxes before 2015. The Company does not expect that total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months.

Accounting Pronouncements Issued But Not Yet Effective: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This pronouncement is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period and is to be applied using one of two retrospective application methods, with early application permitted for fiscal reporting periods beginning after December 15, 2016. In June 2020, the FASB issued ASU No. 2020-05, "Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities," which defers the effective date by one year for certain entities that had not yet issued their financial statements reflecting the adoption of Revenue as of the date the ASU was issued. The Branch has elected to defer the adoption of ASU No. 2014-09 to the fiscal reporting period beginning October 1, 2020. The Company is currently assessing the potential impact of Topic 606 on revenue recognition under existing contracts.

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, 2020 to determine the need for any adjustments to and/or disclosures within these financial statements for the year ended September 30, 2020. Management has performed their analysis through November 17, 2020, 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, 2020 and 2019.

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XTEND, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2020 and 2019

NOTE 4 - INCOME TAXES

The provision for income taxes consists of the following:

	<u>2020</u>	<u>2019</u>
Current federal and state income tax expense	\$ 99,600	\$ 76,400
Deferred federal and state income tax expense	<u>18,900</u>	<u>1,000</u>
	<u>\$ 118,500</u>	<u>\$ 77,400</u>

Deferred tax assets and liabilities are as follows:

	<u>2020</u>	<u>2019</u>
Deferred tax assets	\$ 11,164	\$ 11,815
Deferred tax liabilities	<u>(59,664)</u>	<u>(41,415)</u>
	<u>\$ (48,500)</u>	<u>\$ (29,600)</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 Company is obligated under a capital lease agreement for computer related equipment. Lease payments are generally due monthly and expire in January, 2024. Assets recorded under the capital lease amount to the following:

	<u>2020</u>	<u>2019</u>
Equipment	\$ 93,495	\$ 47,048
Accumulated depreciation	<u>(39,514)</u>	<u>(29,948)</u>
	<u>\$ 53,981</u>	<u>\$ 17,100</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:

2021	\$ 24,858
2022	21,414
2023	9,963
2024	<u>1,638</u>
	57,873
Less amounts representing interest	<u>(3,125)</u>
	54,748
Current portion of capital lease obligation	<u>22,951</u>
Long-term portion of capital lease obligation	<u>\$ 31,797</u>

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NOTE 6 - RELATED PARTY TRANSACTIONS

The Company provides services to all of its stockholders. Revenues from transactions with stockholders constituted 63% and 61% of total revenues during the years ended September 30, 2020 and 2019, respectively. At September 30, 2020 and 2019, 65% and 62%, respectively, of the Company's accounts receivable were from its stockholders. Cash and cash equivalents held at stockholder credit unions totaled approximately \$816,000 and \$842,000 at September 30, 2020 and 2019, 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 \$143,532 and \$139,863 for the years ended September 30, 2020 and 2019, respectively. The Company has entered into an agreement to continue these services for \$11,961 per month from October 1, 2019 through September 30, 2020. 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 \$559,214 and \$562,083 during the years ended September 30, 2020 and 2019, respectively. At September 30, 2020 and 2019, amounts due from this stockholder included in accounts receivable - related party were \$44,888 and \$44,467, respectively. The Company also had accounts payable due to this stockholder of \$20,582 and \$29,305 at September 30, 2020 and 2019, respectively.

NOTE 7 - RISKS AND UNCERTAINTIES

A novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected. The extent to which the coronavirus (or any other disease or epidemic) impacts results due to labor shortages or productivity impacts, office closures, or other general economic impacts to projects and overall business will depend on future developments. These future developments are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others. The Company has not experienced any significant changes to its business operations at this time.