

AUDITED FINANCIAL STATEMENTS

SECURED FINANCE FOUNDATION

SEPTEMBER 30, 2022

SECURED FINANCE FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Secured Finance Foundation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Secured Finance Foundation (the Foundation), which comprise the statements of financial position as of September 30, 2022 and 2021, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of September 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Freed Maxick CPAs, P.C.

Buffalo, New York
January 11, 2023

SECURED FINANCE FOUNDATION

STATEMENTS OF FINANCIAL POSITION
September 30,

ASSETS	2022	2021
Cash and cash equivalents	\$ 184,934	\$ 97,108
Investments, at fair value	243,688	289,262
Accounts receivable	24,000	45,825
Pledge receivables, net of allowance	79,200	112,500
Prepaid expenses	2,195	59,745
Total assets	<u>\$ 534,017</u>	<u>\$ 604,440</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 31,000	\$ 6,958
Deferred revenue, events	29,500	40,500
Due to related parties	263,442	424,807
Total liabilities	<u>323,942</u>	<u>472,265</u>
Net assets:		
Without donor restrictions	<u>210,075</u>	<u>132,175</u>
Total net assets	<u>210,075</u>	<u>132,175</u>
Total liabilities and net assets	<u>\$ 534,017</u>	<u>\$ 604,440</u>

See accompanying notes.

SECURED FINANCE FOUNDATION**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**
For the Years Ended September 30,

	<u>2022</u>	<u>2021</u>
Revenue and support:		
Contributions	\$ 432,670	\$ 386,230
Events	259,250	78,750
Total revenue and support	<u>691,920</u>	<u>464,980</u>
Expenses:		
Program services:		
Conventions and conferences	50,025	1,780
Educational programs	100,008	100,008
Foundation events	150,670	49,321
Total program services	<u>300,703</u>	<u>151,109</u>
Support services:		
Management and general	294,843	234,612
Total support services	<u>294,843</u>	<u>234,612</u>
Total expenses	<u>595,546</u>	<u>385,721</u>
Change in net assets from operations	96,374	79,259
Non-operating income (expense):		
Other income	22,054	821
Interest and investment income	4,943	5,106
Investment fees	(3,626)	(3,629)
Unrealized (loss) gain on investments	(35,933)	13,499
Realized (loss) gain on investments	(5,912)	16,877
	<u>(18,474)</u>	<u>32,674</u>
Change in net assets	77,900	111,933
Net assets - beginning of year	<u>132,175</u>	<u>20,242</u>
Net assets - end of year	<u>\$ 210,075</u>	<u>\$ 132,175</u>

See accompanying notes.

SECURED FINANCE FOUNDATION**STATEMENTS OF CASH FLOWS**
For the Years Ended September 30,

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 77,900	\$ 111,933
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Realized loss (gain) on sale of investments	5,912	(16,877)
Unrealized loss (gain) on investments	35,933	(13,499)
Bad debt expense	22,500	5,000
Changes in operating assets and liabilities:		
Accounts receivable	(675)	(47,700)
Pledge receivables	33,300	37,050
Prepaid expenses	57,550	20,755
Accounts payable and accrued expenses	24,042	(15,778)
Deferred revenue, convention	(11,000)	40,500
Net cash provided by operating activities	<u>245,462</u>	<u>121,384</u>
Cash flows from investing activities:		
Proceeds from sale of investments	305,696	50,365
Purchases of investments	(301,967)	(52,029)
Net cash provided (used) by investing activities	<u>3,729</u>	<u>(1,664)</u>
Cash flows from financing activities:		
Repayments to related parties	(161,365)	(80,370)
Net cash used by financing activities	<u>(161,365)</u>	<u>(80,370)</u>
Net increase in cash and cash equivalents	87,826	39,350
Cash and cash equivalents - beginning of year	<u>97,108</u>	<u>57,758</u>
Cash and cash equivalents - end of year	<u><u>\$ 184,934</u></u>	<u><u>\$ 97,108</u></u>

See accompanying notes.

SECURED FINANCE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Conventions and Conferences	Educational Programs	Foundation Events	Total Program	Management and General	Total
Professional fees - other	\$ -	\$ -	\$ -	\$ -	\$ 152,442	\$ 152,442
Meeting facility costs	29,000	-	81,945	110,945	-	110,945
Foundation program support	-	100,008	-	100,008	-	100,008
Foundation staff support	-	-	-	-	69,996	69,996
Audio/visual	21,025	-	17,446	38,471	-	38,471
Office rent	-	-	-	-	30,000	30,000
Bad debt expense	-	-	-	-	22,500	22,500
Meals - meeting facilities	-	-	20,236	20,236	-	20,236
Charitable contributions	-	-	5,000	5,000	13,600	18,600
Awards	-	-	11,504	11,504	-	11,504
Hotel	-	-	4,852	4,852	-	4,852
D&O insurance	-	-	-	-	3,212	3,212
Printing and copying	-	-	2,759	2,759	-	2,759
Accounting and audit expense	-	-	-	-	2,000	2,000
Event reception	-	-	1,635	1,635	-	1,635
Event entertainment	-	-	1,500	1,500	-	1,500
Photography	-	-	1,350	1,350	-	1,350
Bank and service charges	-	-	-	-	993	993
Travel - other	-	-	935	935	-	935
Contract labor	-	-	800	800	-	800
Marketing and promotions	-	-	669	669	-	669
Office expenses	-	-	-	-	100	100
Hotel - meeting facility	-	-	20	20	-	20
Meals	-	-	19	19	-	19
Total expenses	\$ 50,025	\$ 100,008	\$ 150,670	\$ 300,703	\$ 294,843	\$ 595,546

See accompanying notes.

SECURED FINANCE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Conventions and Conferences	Educational Programs	Foundation Events	Total Program	Management and General	Total
Professional fees - other	\$ -	\$ -	\$ -	\$ -	\$ 121,878	\$ 121,878
Foundation program support	-	100,008	-	100,008	-	100,008
Foundation staff support	-	-	-	-	69,996	69,996
Office rent	-	-	-	-	30,000	30,000
Instructor/speaker expenses	-	-	17,500	17,500	-	17,500
Audio/visual	-	-	17,000	17,000	-	17,000
Marketing and Promotions	-	-	5,434	5,434	3,728	9,162
Photography	-	-	5,194	5,194	-	5,194
Bad debt expenses	-	-	-	-	5,000	5,000
Awards	-	-	4,107	4,107	-	4,107
D&O insurance	-	-	-	-	3,098	3,098
Miscellaneous event expenses	1,780	-	-	1,780	-	1,780
Dues and Subscription	-	-	-	-	500	500
Postage and freight	-	-	22	22	302	324
Bank and service charges	-	-	-	-	60	60
Office expenses	-	-	-	-	50	50
Miscellaneous expenses	-	-	34	34	-	34
Travel - other	-	-	30	30	-	30
Total expenses	\$ 1,780	\$ 100,008	\$ 49,321	\$ 151,109	\$ 234,612	\$ 385,721

See accompanying notes.

SECURED FINANCE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. FOUNDATION AND NATURE OF OPERATIONS

Secured Finance Foundation, hereinafter referred to as “the Foundation”, was incorporated in the state of Delaware in 1990 and is a not for profit Foundation exempt from Federal taxes under Sections 501(c)(3) of the Internal Revenue Code.

The Foundation was formed primarily to raise funds for the development of asset-based lending and factoring educational programs for Secured Finance Network, Inc. (SFN). Over the years, the Foundation has been supported, not only financially, but with the time and efforts of some of the more significant institutions and individuals in the industry, in particular, the consultants, accountants, field examiners, appraisers, and lawyers that are a critical part of the day-to-day business of SFN.

Thanks to such support, the Foundation has been essential in funding, among other things: the development of new education programs, industry studies, marquee speakers at major SFN events and educational programs at the chapter level.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

Basis of Presentation: The financial statements of the Foundation have been prepared on the accrual basis of accounting. A summary of the major accounting policies followed in the preparation of the accompanying financial statements, which conform to accounting principles generally accepted in the United States of America (U.S. GAAP), is presented below.

Accounting Estimates: The preparation of financial statements in conformity with U.S. 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.

Net Assets: The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions: Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets With Donor Restrictions: Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor’s instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Foundation must continue to use the resources in accordance with the donor’s instructions.

When a donor’s restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Foundation, unless the donor provides more specific directions about the period of its use. There are no net assets with donor restrictions at September 30, 2022 and 2021.

SECURED FINANCE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (CONTINUED)

Classification of Transactions: All revenues and net gains are reported as increases in net assets without donor restrictions in the statements of activities and changes in net assets unless the donor specified the use of the related resources for a particular purpose or in a future period.

Expense Recognition and Allocation: The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include various overhead expenses, which are allocated based on space used or actual usage. Every year the basis on which costs are allocated are evaluated.

Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Foundation.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Foundation generally does not conduct its fundraising activities in conjunction with its other activities.

Cash and Cash Equivalents: Cash equivalents are defined as short-term, highly liquid investments with original maturities of 90 days or less.

Investments: As defined by U.S. GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation's investments consist of exchange traded funds, which are publicly traded on national securities exchanges and have readily available quoted market values. Such investments are recorded at fair values (See Note 4).

Interest and investment income primarily include interest earned on long-term investment funds and fixed income securities and dividends earned on equity securities.

Accounts Receivable: Accounts receivable are carried at amounts invoiced less an allowance for uncollectible accounts. Credit is extended to sponsors of events held by the Foundation. On a periodic basis, the Foundation evaluates its allowance for uncollectible accounts, based upon history of past write-offs and collections. Management has determined that an allowance for doubtful accounts was not necessary as of September 30, 2022 or 2021.

Pledge Receivables: Pledge receivables are recorded in accordance with Accounting Standards Codification (ASC) Topic 958, which requires that contributions are recorded as revenue when an unconditional promise to give is received. The Foundation recognizes pledge receivables in the statements of financial position at their fair values. The net pledge receivables at September 30, 2022 amounted to \$79,200 (\$112,500 – 2021). The Foundation expects to receive all pledge receivables during the year ended 2022. Management has determined that an allowance for doubtful accounts of \$25,000 and \$2,500 was necessary as of September 30, 2022 and 2021, respectively.

Prepaid Expenses: Prepaid expenses are comprised of good faith deposits on account relating to the securing of certain educational speakers to speak at SFN conferences and conventions that are to take place subsequent to September 30, 2022 and September 30, 2021. Prepaid expenses as of September 30, 2022 and September 30, 2021 amounted to \$2,195 and \$59,745, respectively.

SECURED FINANCE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (CONTINUED)

Revenue Recognition: The Foundation adheres to Accounting Standards Update 2014-09 (ASC 606) *Revenue from Contracts with Customers*. ASC 606 requires an entity to recognize revenue to depict the transfer of control of services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those services. A performance obligation is a promise in a contract to transfer a distinct service to a customer. The Foundation recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

The Foundation recognizes contributions received as revenue at the date received and are considered to be available for unrestricted use unless specifically restricted by the contributor. Long-term unconditional promises to give are recorded as contributions at the net present value of the amounts expected to be collected. The discounts on these amounts are computed using risk-free interest rates applied to expected cash flows after any allowance for doubtful accounts applicable to the years in which the promises are received.

For performance obligations related to registration fees for events, control transfers to the customer at a point in time and revenues are recognized in the period in which the event is held. The portion relating to an event that is held subsequent to September 30, 2022 and 2021 is reported as deferred revenue, events in the accompanying statements of financial position.

Concentration of Credit Risk: Financial instruments that potentially subject the Foundation to concentrations of credit risk primarily consist of cash and cash equivalents, and investments.

The Foundation places its cash and cash equivalents with high credit quality financial institutions. Cash balances are insured by the FDIC up to \$250,000 per depositor; however, at times, such balances with any one financial institution may be in excess of FDIC insurance limits. The Foundation's cash balance on deposit at September 30, 2022 and 2021 did not exceed the balance insured by the FDIC.

Risks and Uncertainties: The Foundation attempts to diversify its investment portfolios. Investment securities are exposed to various risks, such as interest rates, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in value of investment securities, it is at least possible that changes in risks in the near term could materially affect investment balances, as reported.

The financial markets' volatility may significantly impact the subsequent valuation of the Foundation's investments. Accordingly, the valuation of investments at September 30, 2022 and 2021 may not necessarily be indicative of amounts that could be realized in a current market exchange.

Income Taxes: The Foundation is a not-for-profit entity that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and accordingly, no provisions for federal taxes are included in the financial statements.

U.S. GAAP provides guidance on the financial statement recognition and measurement for income tax positions that the Foundation has taken or expects to take in the Foundation's income tax returns. The Foundation takes many tax positions relative to tax laws, including those taken in determining whether tax is due, a refund is owed, a tax return needs to be filed, or the characterization of income as taxable (for example, unrelated business income) or nontaxable. The Foundation has not recorded any liabilities relating to uncertain tax positions.

The Foundation files its Return or Foundation Exempt from Income Tax in the U.S. federal jurisdiction and its Annual Filing of Charitable Foundation in New York State.

SECURED FINANCE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (CONTINUED)

Recently Issued Accounting Pronouncements: February 2016, the FASB issued ASU 2016-02, Leases. This ASU requires lessees to recognize assets and liabilities on the statement of financial position for leases with lease terms greater than twelve months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lease primarily will depend on its classification as a finance and operating lease. This amends current guidance that requires only capital leases to be recognized on the lessee's balance sheet. ASU 2016-02 will also require additional disclosures on the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for reporting periods beginning after December 15, 2021 with early adoption permitted. The Foundation is currently evaluating the impact that ASU 2016-02 will have on its financial statements and will adopt the provisions upon the effective date.

Subsequent Events: In preparing these financial statements, the Foundation has evaluated all events and transactions for potential recognition or disclosure through January 11, 2023, which is the date these financial statements were available to be issued.

NOTE 3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure that is, without donor or other restrictions limiting their use, within one year of September 30, are:

	<u>2022</u>	<u>2021</u>
Current financial assets:		
Cash	\$ 184,934	\$ 97,108
Accounts receivable	24,000	45,825
Pledges receivable, net	79,200	112,500
Investments	<u>243,688</u>	<u>289,262</u>
Amount available for general expenditures within one year	\$ <u>531,822</u>	\$ <u>544,695</u>

To help manage unanticipated liquidity needs, the Foundation has the ability to receive support from Secured Finance Network, Inc.

NOTE 4. FAIR VALUE MEASUREMENTS

U.S. GAAP establishes a fair value hierarchy that requires companies to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. U.S. GAAP's valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Foundation's market assumptions. U.S. GAAP classifies these inputs into the following hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Following is a description of the valuation methodologies used at September 30, 2022 and 2021.

U.S. Treasury Bills: Valued at the closing price reported on the active market on which the individual U.S. treasury bills are traded. U.S. Treasury Bills are classified as a level 1 investments.

Exchange Traded Funds: Valued at the closing price reported on the active market on which the individual securities are traded. Exchange traded funds are classified as level 1 investments.

SECURED FINANCE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables set forth financial assets measured at fair value in the statements of financial position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of September 30, 2022 and 2021:

<u>Asset Type</u>	Assets at Fair Value as of September 30, 2022			<u>Total</u>
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	
Exchange traded funds	\$ 139,505	\$ -	\$ -	\$ 139,505
Exchange traded funds	104,183	-	-	104,183
Total	<u>\$ 243,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 243,688</u>

<u>Asset Type</u>	Assets at Fair Value as of September 30, 2021			<u>Total</u>
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	
Exchange traded funds	<u>\$ 289,262</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 289,262</u>

NOTE 5. RELATED PARTIES

SFN performs administrative and facility services on behalf of the Foundation for a contracted amount. Related contracted services expense for facility service provided by SFN amounted to approximately \$30,000 for the years ended September 30, 2022 and 2021.

The Foundation also incurs fees payable to SFN in the amount of approximately \$100,000 for the years ended September 30, 2022 and 2021 for services rendered in connection with personnel, insurance, travel and professional fees.

Accounts payable to related party represents amounts owed to SFN. These amounts are non-interest bearing and are expected to be repaid within the next year. Due to related parties for the year ended September 30, 2022 amounted to \$263,442 (\$424,807 – 2021).