

Rubicon Mortgage Fund, LLC

Financial Statements

December 31, 2022



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INDEPENDENT AUDITOR'S REPORT

To the Members of
Rubicon Mortgage Fund, LLC
Lafayette, California

Opinion

We have audited the accompanying financial statements of Rubicon Mortgage Fund, LLC (the "Fund"), which comprise the balance sheet as of December 31, 2022, and the related statements of income and changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rubicon Mortgage Fund, LLC as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Rubicon Mortgage Fund, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 these 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 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 Rubicon Mortgage Fund, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



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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 auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America, 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 Rubicon Mortgage Fund, LLC'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 Rubicon Mortgage Fund, LLC'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.

Armanino LLP

Armanino^{LLP}
San Ramon, California

February 22, 2023

Rubicon Mortgage Fund, LLC
Balance Sheet
December 31, 2022

ASSETS

Cash and cash equivalents	\$ 10,695,101
Restricted cash	361,000
Mortgage interest receivable	880,475
Other receivables	72,088
Mortgage loans receivable, net	<u>132,698,479</u>
 Total assets	 <u><u>\$ 144,707,143</u></u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities	
Accounts payable and other accrued liabilities	\$ 17,023
Management and performance fees payable	18,451
Subscription liabilities	361,000
Subscription borrowings	1,876,621
Deferred interest income	<u>1,119,857</u>
Total liabilities	3,392,952
 Members' equity	 <u>141,314,191</u>
 Total liabilities and members' equity	 <u><u>\$ 144,707,143</u></u>

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

Rubicon Mortgage Fund, LLC
Statement of Income and Changes in Members' Equity
For the Year Ended December 31, 2022

Revenues	
Mortgage interest income	\$ 11,844,373
Other income	<u>343,702</u>
Total revenues	<u>12,188,075</u>
Operating expenses	
Management fees	2,629,825
Performance fees	458,695
Professional fees	386,582
Other operating expenses	<u>257,562</u>
Total operating expenses	<u>3,732,664</u>
Income from operations before provision for income taxes and LLC fees	8,455,411
Income taxes and LLC fees	<u>12,840</u>
Net income	8,442,571
Members' equity, beginning of year	120,214,555
Members' capital contributions	40,997,917
Members' earnings distributions	(4,437,115)
Members' capital withdrawals	<u>(23,903,737)</u>
Members' equity, end of year	<u>\$ 141,314,191</u>

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

Rubicon Mortgage Fund, LLC
Statement of Cash Flows
For the Year Ended December 31, 2022

Cash flows from operating activities	
Net income	\$ 8,442,571
Adjustments to reconcile net income to net cash provided by operating activities	
Amortization of deferred loan origination fees	(2,100,054)
Changes in operating assets and liabilities	
Mortgage interest receivable	(217,508)
Other receivables	56,683
Accounts payable and other accrued liabilities	(5,150)
Management and performance fees payable	(750)
Deferred interest income	(180,472)
Net cash provided by operating activities	<u>5,995,320</u>
Cash flows from investing activities	
Mortgage loans originated	(102,860,642)
Principal collected on mortgage loans	<u>65,508,993</u>
Net cash used in investing activities	<u>(37,351,649)</u>
Cash flows from financing activities	
Subscriptions received	361,000
Subscription borrowings	1,876,621
Members' capital contributions	38,472,533
Members' earnings distributions	(4,437,115)
Members' capital withdrawals	<u>(23,903,737)</u>
Net cash provided by financing activities	<u>12,369,302</u>
Net decrease in cash, cash equivalents and restricted cash	(18,987,027)
Cash, cash equivalents and restricted cash, beginning of year	<u>30,043,128</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 11,056,101</u>
Cash, cash equivalents and restricted cash consisted of the following:	
Cash and cash equivalents	\$ 10,695,101
Restricted cash	<u>361,000</u>
	<u>\$ 11,056,101</u>

Supplemental disclosures of cash flow information

Cash paid during the year for	
Interest	\$ 12,501
Income taxes and LLC fees	\$ 12,840

Supplemental schedule of noncash investing and financing activities

Subscription liabilities transferred to members' capital contributions	\$ 140,000
Subscription borrowings transferred to members' capital contributions	\$ 2,385,384

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

Rubicon Mortgage Fund, LLC
Notes to Financial Statements
December 31, 2022

1. NATURE OF OPERATIONS

Rubicon Mortgage Fund, LLC (the "Fund") is a California limited liability company that was organized to engage in business as a mortgage lender for the purpose of making and arranging various types of loans to the general public and businesses, acquire existing loans and selling loans, all of which are or will be secured, in whole or in part, by real property throughout the United States, primarily in California. The Fund is subject to various rules and regulations, primarily at the state level, relating to its business as a mortgage lender.

The Fund is managed by Rubicon Reality Advisors, Inc., a California corporation (the "Manager"). The Fund receives certain operating and administrative services from the Manager, some of which are not reimbursed to the Manager. The Fund's financial position and results of operations would likely be different absent this relationship with the Manager.

Term of the Fund

The Fund shall continue until December 31, 2027, with a provision for one extension of 10 years, at the sole discretion of the Manager, with further extensions provided by a majority vote of the members, unless dissolved under provisions of the operating agreement at an earlier date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Management estimates and related risks

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 about the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Such estimates relate principally to the determination of the allowance for loan losses and if applicable, the fair value of real estate owned. Although these estimates reflect management's best estimates, it is at least reasonably possible that a material change to these estimates could occur in the near term.

The fair value of real estate, in general, is impacted by current real estate and financial market conditions. Should these markets experience significant declines, the resulting collateral values of the Fund's loans will likely be negatively impacted. The impact on such values could be significant and as a result, the Fund's actual loan losses could differ significantly from management's current estimates.

Cash, cash equivalents and restricted cash

The Fund considers all highly liquid financial instruments with remaining maturities of three months or less to be cash equivalents. Restricted cash represents prospective investor subscription funds on deposit. Cash on deposit occasionally exceeds federally insured limits. The Fund believes that it mitigates this risk by maintaining deposits with major financial institutions.

Rubicon Mortgage Fund, LLC
Notes to Financial Statements
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Mortgage loans receivable

Mortgage loans, which the Fund has the intent and ability to hold for the foreseeable future or to maturity, generally are stated at their outstanding unpaid principal balance with interest thereon being accrued as earned. Mortgage loans receivable make up the only class of financing receivables within the Fund's lending portfolio. As a result, further segmentation of the loan portfolio is not considered necessary.

If the probable ultimate recovery of the carrying amount of a loan, with due consideration for the fair value of collateral, is less than the amounts due according to the contractual terms of the loan agreement and the shortfall in the amounts due are not insignificant, the carrying amount of the investment shall be reduced to the present value of estimated future cash flows discounted at the loan's effective interest rate. If a loan is collateral dependent, it is valued at the estimated fair value of the related collateral.

Interest is accrued daily based on the principal of the loans. If events and or changes in circumstances cause management to have serious doubts about the further collectability of the contractual payments, a loan may be categorized as impaired, and interest is no longer accrued. Any subsequent payments on impaired loans are applied to reduce the outstanding loan balances including accrued interest and advances. The Fund did not consider any loans to be impaired during 2022.

Allowance for loan losses

Loans and the related accrued interest are analyzed on a periodic basis for recoverability. Delinquencies are identified and followed as part of the loan system. A provision is made for losses on loans to adjust the allowance for loan losses to an amount considered by management to be adequate, with due consideration to collateral value, to provide for unrecoverable loans and receivables, including impaired loans, accrued interest, late fees and advances on loans. As a collateral-based lender, the Fund does not consider credit risks which may be inherent in a further segmented loan portfolio as a basis for determining the adequacy of its allowance for loan losses but rather focuses solely on the underlying collateral value of the loans in its portfolio to do so. As a result, the Fund does not consider further segmentation of its loan portfolio and related disclosures necessary. The Fund writes off uncollectible loans and related receivables directly to the allowance for loan losses once it is determined that the full amount is not collectible.

Deferred loan origination fees

Deferred loan origination fees are amortized into mortgage interest income over the life of the loan under the effective interest method. During the year ended December 31, 2022, the Fund amortized into mortgage interest income \$2,100,054 of loan origination fees.

Rubicon Mortgage Fund, LLC
Notes to Financial Statements
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Fund determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2, and Level 3).

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Fund's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Fund's own data.

The Fund does not record loans at fair value on a recurring basis but uses fair value measurements of collateral security in the determination of its allowance for loan losses. The fair value for impaired secured loans is determined using the sales comparison, income, and other commonly used valuation approaches.

The following methods and assumptions were used to estimate the fair value of assets and liabilities:

- Secured loans (Level 2 and Level 3). For loans in which a specific allowance is established based on the fair value of the collateral, the Fund records the loan as nonrecurring Level 2 if the fair value of the collateral is based on an observable market price or a current appraised value. If an appraised value is not available or the fair value of the collateral is considered impaired below the appraised value and there is no observable market price, the Fund records the loan as nonrecurring Level 3.

There have been no changes to the methodologies used at December 31, 2022.

As there were no impaired secured loans at December 31, 2022, the Fund did not have any Level 1, Level 2, or Level 3 assets at December 31, 2022.

Rubicon Mortgage Fund, LLC
Notes to Financial Statements
December 31, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subscription fund liabilities and borrowings

The Fund accepts subscription agreements and funds from prospective investors who wish to become members of the Fund. If approved for admittance into the Fund, the subscription funds are maintained in a separate subscription account until such time as the funds are needed in the normal course of the Fund's operations. While such funds are on deposit in the subscription account, the investor will not be entitled to an allocation of the monthly net profits; however, the investor will receive the interest earned on his funds that are held in the subscription account. If the subscription funds are needed in the normal course of the Fund's operations on any day other than the first day of the month, the subscription funds will be borrowed at an annual rate of 1% for the days within the month the borrowing took place. After the monthly distribution is processed, the subscription fund borrowings, plus any interest accrued thereon, will be recognized as a member capital contribution on behalf of the subscribing member. There were \$361,000 in subscription liabilities at December 31, 2022. There were \$1,876,621 in subscription fund borrowings at December 31, 2022. During the year ended December 31, 2022, the Fund incurred interest expenses totaling \$6,451 on subscription fund borrowings.

Deferred interest income

Deferred interest income represents interest income paid by borrowers in advance upon the funding of a loan. Deferred interest is amortized into mortgage interest income under the effective interest method.

Income taxes

The Fund is a limited liability company for federal and state income tax purposes. Under the laws pertaining to income taxation of limited liability companies, no federal income tax is paid by the Fund as an entity. Individual members report on their federal and state income tax returns their share of Fund income, gains, losses, deductions, and credits, whether or not any actual distribution is made to such members during a taxable year. Accordingly, no provision for income taxes besides the \$800 minimum state franchise tax and the LLC gross receipts fees are reflected in the accompanying financial statements.

The Fund Manager has evaluated its current tax positions and has concluded that as of December 31, 2022, the Fund does not have any significant uncertain tax positions for which a reserve would be necessary.

Subsequent events

The Fund has evaluated subsequent events through February 22, 2023, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Fund's financial statements.

Rubicon Mortgage Fund, LLC
Notes to Financial Statements
December 31, 2022

3. FUND PROVISIONS

The Fund is a California limited liability company. The rights, duties, and powers of the members of the Fund are governed by the operating agreement and Chapter 3, Title 2.5 of the California Corporations Code. The following description of the Fund's operating agreement provides only general information. Members should refer to the Fund's operating agreement and private placement memorandum, as amended, for a more complete description of the provisions.

The Manager is in complete control of the Fund business, subject to the voting rights of the members on specified matters. The Manager acting alone has the power and authority to act for and bind the Fund.

Members may remove the Manager if: (i) the Manager commits an act of willful misconduct which materially adversely damages the Fund; or (ii) holders of at least a majority of the outstanding membership interests vote in favor of such removal.

Profits and losses

Profits and losses accrued during any accounting period shall be allocated among the members in accordance with their respective membership interests maintained throughout that accounting period.

Distributions and performance fees

Members are entitled, on a non-compounding basis, payable monthly in arrears, to 6% per annum non-guaranteed target return ("Target Return") on their invested capital. The Manager will share in any such distribution to the extent it acquires and holds membership interests.

Once all accrued Target Return distributions have been made, the remaining net income from operations generally shall be distributed 60% to the Fund's members, including the Manager to the extent it holds memberships interests, and 40% to the Manager as a performance fee.

Reinvestment

Members have the option to reinvest their proportionate share of the Fund's monthly earnings.

Liquidity, capital withdrawals, and early withdrawals

There is no public market for membership interest of the Fund and none is expected to develop in the foreseeable future. There are substantial restrictions on the transferability of membership interests. Any transferee must be a person that would have been qualified to purchase a member unit in the offering and a transferee may not become a substituted member without the consent of the Manager.

Rubicon Mortgage Fund, LLC
Notes to Financial Statements
December 31, 2022

3. FUND PROVISIONS (continued)

Liquidity, capital withdrawals, and early withdrawals (continued)

A member may withdraw as a member of the Fund and may receive a return of capital provided that the member provides the Fund with a written request for a return of capital at least 30 days prior to such withdrawal. The Fund will use its best efforts to honor requests for a return of capital subject to, among other things, the Fund's then cash flow, financial condition, compliance with regulatory and other limitations, such as ERISA thresholds, and prospective loans. Notwithstanding the foregoing, the Manager may, in its sole discretion, waive such withdrawal requirements or penalties if a member is experiencing undue hardship.

4. MORTGAGE LOANS RECEIVABLE, NET

Mortgage loans receivable, net consist of the following:

Mortgage loans receivable	\$ 135,585,580
Allowance for loan losses	(1,900,000)
Unamortized deferred loan origination fees	<u>(987,101)</u>
	<u>\$ 132,698,479</u>

Allocation of the allowance for loan losses by collateral type consisted of the following:

Commercial / retail	\$ 1,109,410
Single-family residential	494,950
Industrial	147,440
Multi-family residential	77,710
Land	<u>70,490</u>
	<u>\$ 1,900,000</u>

5. LINE OF CREDIT

During 2022, the Fund's line of credit agreement was extended to August 15, 2023. The maximum borrowing limit on the line of credit agreement is \$10,000,000. The line bears interest at a rate of 0.50% over the Prime Rate as published by the Wall Street Journal and has a floor rate of 5.00%. The interest rate on the line of credit was 8.00% at December 31, 2022. All accrued and unpaid interest is payable monthly. Borrowings against the line of credit are secured by substantially all the assets of the Fund. The line of credit is personally guaranteed by the member of the Manager. The Fund did not have an outstanding balance on the line of credit at December 31, 2022. Interest expense incurred on the line of credit was \$6,050 for the year ended December 31, 2022.

The line of credit agreement requires the Fund to comply with various financial covenants. At December 31, 2022, the Fund was in compliance with all the required financial covenants.

Rubicon Mortgage Fund, LLC
Notes to Financial Statements
December 31, 2022

6. RELATED PARTY TRANSACTIONS

Management fees

The Manager earns management fees of 0.1667% (2% annually) on total assets under management as of the first day of the month. Management fees earned by the Manager amounted to \$2,629,825 for the year ended December 31, 2022. The Fund had a payable to the Manager for management fees of \$5,597 at December 31, 2022, which has been included in the manager and performance fees payable in the accompanying balance sheet.

Performance fees

As described in Note 3, after payment to members of the Target Return, the Manager is eligible to receive performance fees. Performance fees amounted to \$458,695 for the year ended December 31, 2022. The Fund had a payable to the Manager for performance fees of \$12,854 at December 31, 2022, which has been included in the manager and performance fees payable in the accompanying balance sheet.

Operating expenses

Pursuant to the private placement memorandum, when the assets of the Fund reach \$10,000,000, the Manager, at its discretion, may be reimbursed for all Fund expenses paid by the Manager. The Manager has the right to reimbursement of all organization, syndication, operating, and administrative costs incurred on behalf of the Fund. For the year ended December 31, 2022, the Manager absorbed all operating and administrative expenses of the Fund besides those which have been reflected in the Fund's statement of income and changes in members' equity.

Rubicon Mortgage Fund, LLC
Notes to Financial Statements
December 31, 2022

7. LOAN CONCENTRATION AND CHARACTERISTICS

The loans are secured by recorded deeds of trust with the following characteristics:

Number of secured loans outstanding	108
Total secured loans outstanding	\$ 135,585,580
Average secured loan outstanding	\$ 1,255,422
Average secured loan as a percent of total secured loans	0.93 %
Average secured loan as a percent of members' equity	0.89 %
Largest secured loan outstanding	\$ 8,490,000
Largest secured loan as a percent of total secured loans	6.26 %
Largest secured loan as percent of members' equity	6.01 %
Number of secured loans over 90 days past due in interest and still accruing	1
Approximate investment in secured loans over 90 days past due in interest and still accruing	\$ 3,130,000
Number of secured loans in foreclosure	1
Approximate principal of secured loans in foreclosure	\$ 3,030,000
Number of secured loans on non-accrual status	-
Approximate investment in secured loans on non-accrual status	\$ -
Number of secured loans considered to be impaired	-
Approximate investment in secured loans considered to be impaired	\$ -
Average investment in secured loans considered to be impaired	\$ -
Approximate amount of foregone interest on loans considered to be impaired	\$ -
Estimated amount of impairment on loans considered to be impaired (included in the allowance for loan losses)	\$ -
Number of secured loans over 90 days past maturity	-
Approximate principal of secured loans over 90 days past maturity	\$ -
Number of states where security is located	1
Number of counties where security is located	19

Rubicon Mortgage Fund, LLC
Notes to Financial Statements
December 31, 2022

7. LOAN CONCENTRATION AND CHARACTERISTICS (continued)

All of the Fund's loans are secured by recorded deeds of trust on real property located in California. The various counties within California in which secured property is located are as follows:

	<u>Loan Balances</u>	<u>Percentage</u>
San Francisco County	\$ 37,725,910	27.82 %
Alameda County	27,311,626	20.14 %
Contra Costa County	18,958,908	13.98 %
Other*	<u>51,589,136</u>	<u>38.06 %</u>
	<u>\$ 135,585,580</u>	<u>100.00 %</u>

* Other does not include any counties with loan concentrations greater than 10%.

The following categories of secured loans were held as follows:

First trust deeds	<u>\$ 135,585,580</u>
Loans by type of property	
Commercial / retail	\$ 79,168,584
Single-family residential	35,326,240
Industrial	10,514,963
Multi-family residential	5,550,793
Land	<u>5,025,000</u>
	<u>\$ 135,585,580</u>

The schedule below presents the status of the secured loans with regards to interest payments as follows:

Days outstanding	
Current (0 to 30 days)	\$ 123,135,618
31 to 90 days	9,419,962
91 days and greater	<u>3,030,000</u>
	<u>\$ 135,585,580</u>

Rubicon Mortgage Fund, LLC
Notes to Financial Statements
December 31, 2022

7. LOAN CONCENTRATION AND CHARACTERISTICS (continued)

The future maturities of secured loans are as follows:

<u>Year ending December 31,</u>	
2023	\$ 92,885,559
2024	26,370,328
2025	11,875,000
2026	<u>4,454,693</u>
	<u>\$ 135,585,580</u>

Scheduled maturities for 2023 include two loans totaling approximately \$5,580,000 that were past maturity at December 31, 2022. One of two past maturity loans at December 31, 2022, is current with respect to interest payment. As of February 22, 2023, the past maturity loans are in the process of maturity extensions.

It is the Fund's experience that often times mortgage loans are either extended or repaid before contractual maturity dates, refinanced at maturity, or may go into default and not be repaid by the contractual maturity dates. Therefore, the above tabulation is not a forecast of future cash collections.