



**SINGER FINANCIAL CORPORATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

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## INDEPENDENT AUDITOR'S REPORT

**Stockholder and Director  
Singer Financial Corp.  
Philadelphia, Pennsylvania**

We have audited the accompanying balance sheets of **SINGER FINANCIAL CORP.** as of December 31, 2006 and 2005, and the related statements of income, stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Singer Financial Corp. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Fishbein & Company, P.C.*

Horsham, Pennsylvania  
March 7, 2007

**SINGER FINANCIAL CORP.****Balance Sheets****ASSETS**

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Cash	\$ 35,431	\$ 88,107
Loans receivable	9,337,252	7,480,711
Accrued interest receivable	208,019	131,872
Due from affiliate	441,817	
Prepaid expenses	6,312	3,857
Property and equipment - Net of accumulated depreciation of \$123,134 - 2006 and \$102,637 - 2005	496,522	508,798
Financing costs - Net of accumulated amortization of \$121,064 - 2006 and \$103,345- 2005	89,133	118,718
	<u>\$ 10,614,486</u>	<u>\$ 8,332,063</u>

**LIABILITIES AND STOCKHOLDER'S EQUITY****LIABILITIES**

Notes payable - Bank	\$ 3,452,744	\$ 2,259,956
Subordinated investment certificates (Including accrued interest of \$605,998 - 2006 and \$457,642 - 2005)	4,667,353	4,180,415
Accounts payable and accrued expenses		4,753
Demand note payable - Stockholder	15,272	736
	<u>8,135,369</u>	<u>6,445,860</u>

**STOCKHOLDER'S EQUITY**

Preferred stock - No par value Authorized 500,000 shares Issued and outstanding - None		
Common stock - No par value Authorized 10,000 shares Issued and outstanding - 2,000 shares	600,000	600,000
Retained earnings	1,879,117	1,286,203
	<u>2,479,117</u>	<u>1,886,203</u>
	<u>\$ 10,614,486</u>	<u>\$ 8,332,063</u>

See notes to financial statements.

**SINGER FINANCIAL CORP.****Statements of Income**

	Year Ended December 31,	
	2006	2005
<b>INCOME</b>		
Interest		
Interest income	\$ 1,442,360	\$ 1,204,372
Interest expense	<u>627,822</u>	<u>429,804</u>
Net interest income	814,538	774,568
Brokerage and other fees	<u>467,049</u>	<u>347,737</u>
	<u>1,281,587</u>	<u>1,122,305</u>
<b>OPERATING EXPENSES</b>		
General and administrative	446,341	699,574
Depreciation and amortization	<u>50,082</u>	<u>47,964</u>
	<u>496,423</u>	<u>747,538</u>
<b>INCOME FROM OPERATIONS</b>	785,164	374,767
<b>OTHER INCOME</b>		
Rental income	<u>7,750</u>	<u>6,000</u>
<b>NET INCOME</b>	<u>\$ 792,914</u>	<u>\$ 380,767</u>

See notes to financial statements.

**SINGER FINANCIAL CORP.****Statements of Stockholder's Equity****Years Ended December 31, 2006 and 2005**

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>		
<b>BALANCE - January 1, 2005</b>	2,000	\$ 600,000	\$ 1,015,436	\$ 1,615,436
Net income			380,767	380,767
Distributions			( 110,000)	( 110,000)
<b>BALANCE - December 31, 2005</b>	2,000	600,000	1,286,203	1,886,203
Net income			792,914	792,914
Distributions			( 200,000)	( 200,000)
<b>BALANCE - December 31, 2006</b>	<u>2,000</u>	<u>\$ 600,000</u>	<u>\$ 1,879,117</u>	<u>\$ 2,479,117</u>

See notes to financial statements.

**SINGER FINANCIAL CORP.****Statements of Cash Flows**

	Year Ended December 31,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 792,914	\$ 380,767
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of loan origination fees - Net	( 177,652)	( 220,600)
Depreciation of property and equipment	20,497	21,057
Amortization of financing costs	29,585	26,907
Increase in accrued interest on subordinated investment certificates	148,356	311,246
(Increase) decrease in:		
Accrued interest receivable	( 76,147)	( 49,709)
Prepaid expenses	( 2,455)	2,866
Due from affiliate	( 441,817)	
Decrease in:		
Accounts payable and accrued expenses	( 4,753)	( 45,950)
Net cash provided by operating activities	<u>288,528</u>	<u>426,584</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans originated	( 5,445,964)	( 3,725,422)
Loan payments received	3,767,075	3,488,349
Purchase of property and equipment	( 8,221)	( 68,172)
Net cash used in investing activities	<u>( 1,687,110)</u>	<u>( 305,245)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Financing costs incurred		( 24,748)
Proceeds of note and mortgage payable - Bank	2,445,000	1,960,000
Principal payments on note and mortgage payable - Bank	( 1,252,212)	( 1,722,197)
Proceeds from issuance of subordinated investment certificates	476,629	46,597
Principal payments on subordinated investment certificates	( 138,047)	( 214,040)
Net principal advances (payments) on demand note payable - Stockholder	14,536	( 29,566)
Stockholder's distributions	( 200,000)	( 110,000)
Net cash provided by (used in) financing activities	<u>1,345,906</u>	<u>( 93,954)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<u>( 52,676)</u>	<u>27,385</u>
<b>CASH - BEGINNING</b>	<u>88,107</u>	<u>60,722</u>
<b>CASH - ENDING</b>	<u>\$ 35,431</u>	<u>\$ 88,107</u>

See notes to financial statements.

**SINGER FINANCIAL CORP.**

**Statements of Cash Flows (Continued)**

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	Year Ended December 31,	
	<u>2006</u>	<u>2005</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for		
Interest	\$ 484,219	\$ 603,958

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES**

Accrued interest of \$605,998 and \$457,642 was added to the principal amount of subordinated investment certificates for the years ended December 31, 2006 and 2005, respectively.

See notes to financial statements.



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Nature of Business**

The Company makes commercial loans to customers in Pennsylvania, New Jersey and Delaware, is a broker of commercial mortgage loans and a licensed broker of residential mortgages in Pennsylvania, and is subject to the risk associated with the real estate and mortgage loan markets in those areas.

**b. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

**c. Cash**

The Company maintains its cash balances in one bank. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At times, the balances may exceed federally insured limits. The Company has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash.

**d. Loans Receivable and Allowance for Credit Losses**

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees net of direct costs are deferred and amortized to interest income over the term of the loans using the interest method. Unamortized amounts are recognized in income when the loans are sold or paid in full.

An allowance for credit losses is provided as necessary based upon the expected collectibility of loans outstanding. At December 31, 2006 and 2005, no allowance for credit losses was deemed necessary.

**e. Property and Equipment and Depreciation**

Property and equipment are stated at cost. Expenditures for additions, renewals and betterments are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is credited or charged to operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets (ranging from 5 to 40 years).

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*f. Financing Costs and Amortization*

Financing costs of \$210,198 and \$222,063 at December 31, 2006 and 2005, respectively, incurred in connection with the public offering of subordinated investment certificates, are being amortized using the interest method over the term of the certificates. Estimated amortization of the financing costs is as follows: Year ending December 31, 2007 - \$25,026, 2008 - \$17,468, 2009 - \$14,329, 2010 - \$10,488 and 2011 - \$8,467.

*g. Interest Income*

Interest income from loans receivable is recognized using the interest method. Accrual of interest income is suspended when the receivable is contractually delinquent for ninety days or more. The accrual is resumed when the receivable becomes contractually current, and past due interest income is recognized at that time. In addition, a detailed review of the receivables will cause earlier suspension if collection is doubtful.

*h. Advertising Costs*

Advertising costs are charged to expense as incurred. Total advertising costs, included in general and administrative expenses, were \$10,279 and \$6,017 for the years ended December 31, 2006 and 2005, respectively.

*i. Income Taxes*

The Company has elected to be an S Corporation under the provisions of the Internal Revenue Code and the Pennsylvania S Corporation Statute. As a result, income and losses of the Company are passed through to its stockholder for federal and state income tax purposes. Accordingly, no provision is made for federal or state income taxes.

## 2. LOANS RECEIVABLE

	December 31,	
	2006	2005
Real estate secured loans		
Current	\$ 7,326,927	\$ 6,326,268
On nonaccrual status	2,632,296	1,577,932
	9,959,223	7,904,200
Unamortized origination costs (fees) - Net	( 621,971)	( 423,489)
	<u>\$ 9,337,252</u>	<u>\$ 7,480,711</u>

At December 31, 2006, the contractual maturities of real estate secured loans receivable are as follows:

	2007	2008	2009	2010	2011	Thereafter	Total
Real estate secured loans	\$ 1,293,089	\$ 718,960	\$ 900,286	\$ 2,443,710	\$ 4,601,037	\$ 2,141	\$ 9,959,223
Unamortized origination fees - Net	( 184,291)	( 159,301)	( 135,242)	( 107,610)	( 35,525)	( 2)	( 621,971)
	<u>\$ 1,108,798</u>	<u>\$ 559,659</u>	<u>\$ 765,044</u>	<u>\$ 2,336,100</u>	<u>\$ 4,565,512</u>	<u>\$ 2,139</u>	<u>\$ 9,337,252</u>

It is anticipated that a substantial portion of the loan portfolio will be renewed or repaid before contractual maturity dates. The above tabulation, therefore, is not to be regarded as a forecast of future cash collections.

**3. PROPERTY AND EQUIPMENT**

	<u>2006</u>	<u>2005</u>
Land	\$ 66,977	\$ 66,977
Auto	22,898	22,898
Building	267,907	267,907
Building improvements	34,335	26,115
Leasehold improvements	193,298	193,298
Office furniture and equipment	<u>34,240</u>	<u>34,240</u>
	619,655	611,435
Less accumulated depreciation	<u>123,133</u>	<u>102,637</u>
	<u>\$ 496,522</u>	<u>\$ 508,798</u>

**4. NOTES PAYABLE – BANK**

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Note payable - Represents the balance of advances to date under a \$5,000,000 line of credit; interest payable monthly at prime (an effective rate of 8.25% at December 31, 2006); collateralized by the loans receivable. The loan agreement also contains various restrictive covenants, including the following: aggregate debt less than 300% of the sum of net worth and subordinated debt, and tangible net worth not less than \$3,000,000.	\$ 3,406,191	\$ 2,253,037
Note payable - Represents the balance of advances to date under a \$750,000 line of credit; interest payable monthly at prime (an effective rate of 8.25% at December 31, 2006); collateralized by the building and equipment. Balance is due on demand by bank.	<u>46,553</u>	<u>6,919</u>
	<u>\$ 3,452,744</u>	<u>\$ 2,259,956</u>

**5. SUBORDINATED INVESTMENT CERTIFICATES**

The Company has authorized the issuance through a public offering (as amended), under Regulation A of the Securities Act of 1933, of an aggregate of \$5,000,000 of subordinated investment certificates. The certificates mature at various dates from one year to fifteen years after issuance, and bear interest at 1% over the rates paid by certain banks on similar certificates, with a minimum of 5% and a maximum of 12%. The minimum and maximum interest rates may be adjusted, from time to time, according to current business and market conditions. The certificates are subordinated to the Company's indebtedness for borrowed money whether incurred before or after the issuance of the certificates. The Company has the option to call any certificate for redemption before maturity with prior written notice by registered mail not less than 30 days before redemption.

Certificates outstanding at December 31, 2006 mature as follows:

<u>Year Ending December 31,</u>	<u>Amount (including accrued interest)</u>	<u>Interest Rate</u>
2007	\$ 233,033	5 - 10
2008	94,658	6 - 10.5
2009	307,540	6 - 10
2010	484,893	6 - 10.5
2011	168,608	7 - 10.5
2012	82,926	7 - 10.25
2013	1,028,519	7 - 9.5
2014	74,077	8
2015	66,885	8 - 11
2016	159,715	8 - 11
2018	897,629	9 - 10
2019	281,310	7 - 9.5
2020	85,032	7 - 9
2021	702,528	9 - 10
	<u>\$ 4,667,353</u>	

**6. RELATED PARTY TRANSACTIONS**

The Company leases certain of its facilities to its stockholder under a year-to-year lease, expiring May, 2007. Rent increased in the current year from \$500 to \$750 a month.

The stockholder leases office space to the Company under a year-to-year lease, at a monthly rent of \$750. Rent expense was \$9,000 for each of the years ended December 31, 2006 and 2005.

During the year ended December 31, 2006, an affiliated company assumed loans receivable with book values of \$441,817 from two debtors of the Company and is due from the affiliate at December 31, 2006.

**7. INCOME TAXES**

Prior to January 1, 2003, the Company had operated as a C Corporation. Effective January 1, 2003, the Company has elected S Corporation status. Earnings and losses after that date will be included in the personal income tax return of the stockholder and taxed depending on his personal tax strategy. As a result, the Company will not incur any additional income tax obligations, and future financial statements will not include a provision for income taxes.