



SINGER FINANCIAL CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2007

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INDEPENDENT AUDITOR'S REPORT

February 27, 2008

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

We have audited the accompanying balance sheets of **SINGER FINANCIAL CORP.** as of December 31, 2007 and 2006, 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, 2007 and 2006, 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

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

	December 31,	
	2007	2006
Cash	\$ 63,659	\$ 35,431
Loans receivable	7,100,659	9,337,252
Accrued interest receivable	111,603	208,019
Due from affiliates	351,374	441,817
Prepaid expenses	7,926	6,312
Property and equipment - Net of accumulated depreciation of \$148,623 - 2007 and \$123,134 - 2006	534,715	496,522
Financing costs - Net of accumulated amortization of \$97,978 - 2007 and \$121,064 - 2006	71,874	89,133
	<u>\$ 8,241,810</u>	<u>\$ 10,614,486</u>

LIABILITIES AND STOCKHOLDER'S EQUITY**LIABILITIES**

Notes payable - Bank	\$ 814,534	\$ 3,452,744
Subordinated investment certificates	4,885,210	4,667,353
Accounts payable and accrued expenses	7,969	
Demand note payable - Stockholder	13,595	15,272
	<u>5,721,308</u>	<u>8,135,369</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	1,920,502	1,879,117
	<u>2,520,502</u>	<u>2,479,117</u>
	<u>\$ 8,241,810</u>	<u>\$ 10,614,486</u>

See notes to financial statements.

SINGER FINANCIAL CORP.**Statements of Income**

	Year Ended December 31,	
	2007	2006
INCOME		
Interest		
Interest income	\$ 1,436,637	\$ 1,442,360
Interest expense	<u>654,516</u>	<u>627,822</u>
Net interest income	782,121	814,538
Brokerage and other fees	<u>319,127</u>	<u>467,049</u>
	<u>1,101,248</u>	<u>1,281,587</u>
OPERATING EXPENSES		
General and administrative	596,564	446,341
Depreciation and amortization	<u>44,077</u>	<u>50,082</u>
	<u>640,641</u>	<u>496,423</u>
INCOME FROM OPERATIONS	<u>460,607</u>	<u>785,164</u>
OTHER INCOME		
Gain on sale of equipment	4,778	
Rental income	<u>11,000</u>	<u>7,750</u>
	<u>15,778</u>	<u>7,750</u>
NET INCOME	<u>\$ 476,385</u>	<u>\$ 792,914</u>

See notes to financial statements.

SINGER FINANCIAL CORP.**Statements of Stockholder's Equity****Years Ended December 31, 2007 and 2006**

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>		
BALANCE - January 1, 2006	2,000	\$ 600,000	\$ 1,286,203	\$ 1,886,203
Net income			792,914	792,914
Distributions			<u>(200,000)</u>	<u>(200,000)</u>
BALANCE - December 31, 2006	2,000	600,000	1,879,117	2,479,117
Net income			476,385	476,385
Distributions			<u>(435,000)</u>	<u>(435,000)</u>
BALANCE - December 31, 2007	<u>2,000</u>	<u>\$ 600,000</u>	<u>\$ 1,920,502</u>	<u>\$ 2,520,502</u>

See notes to financial statements.

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

	Year Ended December 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 476,385	\$ 792,914
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of loan origination fees - Net	(317,927)	(177,652)
Depreciation of property and equipment	26,818	20,497
Gain on sale of equipment	(4,778)	
Amortization of financing costs	17,259	29,585
Increase in accrued interest on subordinated investment certificates	315,247	148,356
(Increase) decrease in:		
Accrued interest receivable	96,416	(76,147)
Prepaid expenses	(1,614)	(2,455)
Due from affiliates	90,443	(441,817)
Increase (decrease) in:		
Accounts payable and accrued expenses	7,969	(4,753)
Net cash provided by operating activities	<u>706,218</u>	<u>288,528</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans originated	(1,625,970)	(5,445,964)
Loan payments received	4,180,490	3,767,075
Proceeds from sale of equipment	14,700	
Construction costs incurred	(4,799)	
Purchase of property and equipment	(70,134)	(8,221)
Net cash provided by (used in) investing activities	<u>2,494,287</u>	<u>(1,687,110)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of notes payable - Bank	1,244,274	2,445,000
Principal payments on notes payable - Bank	(3,882,484)	(1,252,212)
Proceeds from issuance of subordinated investment certificates	146,523	476,629
Principal payments on subordinated investment certificates	(243,913)	(138,047)
Net principal advances (payments) on demand note payable - Stockholder	(1,677)	14,536
Stockholder's distributions	(435,000)	(200,000)
Net cash provided by (used in) financing activities	<u>(3,172,277)</u>	<u>1,345,906</u>
NET INCREASE (DECREASE) IN CASH	28,228	(52,676)
CASH - BEGINNING	<u>35,431</u>	<u>88,107</u>
CASH - ENDING	<u>\$ 63,659</u>	<u>\$ 35,431</u>

See notes to financial statements.

SINGER FINANCIAL CORP.

Statements of Cash Flows (Continued)

	<u>Year Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	\$ 331,300	\$ 603,958

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, 2007 and 2006, no allowance for credit losses was deemed necessary; collateral values were considered adequate to cover outstanding loan balances. Management performs the appraisals of the real estate collateral and have adequately considered their qualifications and determined that their appraisals reflect true market value.

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 \$169,852 and \$210,198 at December 31, 2007 and 2006, 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, 2008 - \$14,329, 2009 - \$10,488, 2010 - \$8,467, 2011 - \$7,420 and 2012 - \$6,335.

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 \$20,964 and \$10,279 for the years ended December 31, 2007 and 2006, 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,	
	2007	2006
Real estate secured loans		
Current	\$ 6,290,485	\$ 7,326,927
On nonaccrual status	1,229,575	2,632,296
	7,520,060	9,959,223
Unamortized origination costs (fees) - Net	(419,401)	(621,971)
	<u>\$ 7,100,659</u>	<u>\$ 9,337,252</u>

At December 31, 2007, the contractual maturities of real estate secured loans receivable are as follows:

	2008	2009	2010	2011	2012	Total
Real estate secured loans	\$ 960,093	\$ 884,812	\$ 1,768,729	\$ 2,783,232	\$ 1,123,194	\$ 7,520,060
Unamortized origination fees - Net	(145,886)	(123,643)	(96,437)	(44,076)	(9,359)	(419,401)
	<u>\$ 814,207</u>	<u>\$ 761,169</u>	<u>\$ 1,672,292</u>	<u>\$ 2,739,156</u>	<u>\$ 1,113,835</u>	<u>\$ 7,100,659</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>2007</u>	<u>2006</u>
Land	\$ 66,977	\$ 66,977
Auto	65,909	22,898
Building	267,907	267,907
Building improvements	37,335	34,335
Leasehold improvements	193,298	193,298
Office furniture and equipment	35,465	34,240
Construction in progress	<u>4,799</u>	
	671,690	619,655
Less accumulated depreciation	<u>136,975</u>	<u>123,133</u>
	<u>\$ 534,715</u>	<u>\$ 496,522</u>

4. NOTES PAYABLE – BANK

	<u>2007</u>	<u>2006</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 7.25% at December 31, 2007); 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. Balance is due on demand by the bank.	\$ 719,480	\$ 3,406,191
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 7.25% at December 31, 2007); collateralized by the building and equipment. Balance is due on demand by bank.	45,780	46,553
Note payable - Represents the balance of an auto loan; principal and interest payments of \$1,108 are due monthly; effective rate of interest is 6.9%; maturity date is May, 2012; Principal payments on the loan are due as follows: Year ending December 31, 2008 - \$8,922, 2009 - \$10,845, 2010 - \$11,618, 2011 - \$12,445, 2012 - \$5,444.	<u>49,274</u>	
	<u>\$ 814,534</u>	<u>\$ 3,452,744</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, 2007 mature as follows:

<u>Year Ending December 31,</u>	<u>Amount (including accrued interest)</u>	<u>Interest Rate</u>
2008	\$ 103,684	6 - 10.5
2009	329,372	6 - 10
2010	548,812	6 - 10.5
2011	226,252	7 - 10.5
2012	124,144	7 - 10.25
2013	1,108,693	7 - 9.5
2014	108,465	8
2015	70,696	8 - 11
2016	169,012	8 - 11
2018	896,406	9 - 10
2019	307,261	7 - 9.5
2020	86,113	7 - 9
2021	752,030	9 - 10
2022	54,270	9 - 10
	<u>\$ 4,885,210</u>	

6. RELATED PARTY TRANSACTIONS

The Company leases certain of its facilities to its stockholder under a year-to-year lease, expiring May, 2008. Rent increased in the current year from \$750 to \$1,000 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, 2007 and 2006.

During the years ended December 31, 2007 and 2006, an affiliated company assumed loans receivable with book values of \$773,407 and \$441,817, respectively, from one and two debtors of the Company.