



**SINGER FINANCIAL CORPORATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

## INDEX TO FINANCIAL STATEMENTS

	<u>PAGE</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>F-2</b>
<b>FINANCIAL STATEMENTS</b>	
Balance sheets as of December 31, 2008 and 2007	F-3
Statements of income for the years ended December 31, 2008 and 2007	F-4
Statements of stockholder's equity for the years ended December 31, 2008 and 2007	F-5
Statements of cash flows for the years ended December 31, 2008 and 2007	F-6-7
Notes to financial statements	F-8-13



## INDEPENDENT AUDITOR'S REPORT

February 10, 2009

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

We have audited the accompanying balance sheets of **SINGER FINANCIAL CORP.** as of December 31, 2008 and 2007, 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, 2008 and 2007, 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,	
	<u>2008</u>	<u>2007</u>
Cash	\$ 131,325	\$ 63,659
Loans receivable	7,091,548	7,100,659
Accrued interest receivable	129,514	111,603
Due from affiliates	447,316	351,374
Prepaid expenses	4,407	7,926
Property and equipment - Net of accumulated depreciation of \$171,413 - 2008 and \$136,975 - 2007	668,758	534,715
Financing costs - Net of accumulated amortization of \$87,322 - 2008 and \$97,978 - 2007	57,640	71,874
	<u>\$ 8,530,508</u>	<u>\$ 8,241,810</u>

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

Notes payable - Bank	\$ 786,194	\$ 814,534
Subordinated investment certificates	5,154,601	4,885,210
Accounts payable and accrued expenses		7,969
Demand note payable - Stockholder	886	13,595
	<u>5,941,681</u>	<u>5,721,308</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	1,988,827	1,920,502
	<u>2,588,827</u>	<u>2,520,502</u>
	<u>\$ 8,530,508</u>	<u>\$ 8,241,810</u>

See notes to financial statements.

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

	Year Ended December 31,	
	2008	2007
<b>INCOME</b>		
Interest		
Interest income	\$ 1,267,083	\$ 1,436,637
Interest expense	<u>488,894</u>	<u>654,516</u>
Net interest income	778,189	782,121
Brokerage and other fees	<u>109,356</u>	<u>319,127</u>
	<u>887,545</u>	<u>1,101,248</u>
<b>OPERATING EXPENSES</b>		
General and administrative	532,548	596,564
Depreciation and amortization	<u>48,672</u>	<u>44,077</u>
	<u>581,220</u>	<u>640,641</u>
<b>INCOME FROM OPERATIONS</b>	<u>306,325</u>	<u>460,607</u>
<b>OTHER INCOME</b>		
Gain on sale of equipment		4,778
Rental income	<u>12,000</u>	<u>11,000</u>
	<u>12,000</u>	<u>15,778</u>
<b>NET INCOME</b>	<u>\$ 318,325</u>	<u>\$ 476,385</u>

See notes to financial statements.

**SINGER FINANCIAL CORP.****Statements of Stockholder's Equity****Years Ended December 31, 2008 and 2007**

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>		
<b>BALANCE - January 1, 2007</b>	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>
<b>BALANCE - December 31, 2007</b>	2,000	600,000	1,920,502	2,520,502
Net income			318,325	318,325
Distributions			<u>( 250,000)</u>	<u>( 250,000)</u>
<b>BALANCE - December 31, 2008</b>	<u>2,000</u>	<u>\$ 600,000</u>	<u>\$ 1,988,827</u>	<u>\$ 2,588,827</u>

See notes to financial statements.

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

	Year Ended December 31,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 318,325	\$ 476,385
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of loan origination fees - Net	( 224,451)	( 317,927)
Depreciation of property and equipment	34,438	26,818
Gain on sale of equipment		( 4,778)
Amortization of financing costs	14,234	17,259
Increase in accrued interest on subordinated investment certificates	326,062	315,247
(Increase) decrease in:		
Accrued interest receivable	( 17,911)	96,416
Prepaid expenses	3,519	( 1,614)
Due from affiliates	( 95,942)	90,443
(Increase) decrease in:		
Accounts payable and accrued expenses	( 7,969)	7,969
Net cash provided by operating activities	<u>350,305</u>	<u>706,218</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans originated	( 2,403,991)	( 1,625,970)
Loan payments received	2,637,553	4,180,490
Proceeds from sale of equipment		14,700
Construction costs incurred	( 156,691)	( 4,799)
Purchase of property and equipment	( 11,790)	( 70,134)
Net cash provided by investing activities	<u>65,081</u>	<u>2,494,287</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds of notes payable - Bank	1,294,270	1,244,274
Principal payments on notes payable - Bank	( 1,322,610)	( 3,882,484)
Proceeds from issuance of subordinated investment certificates		146,523
Principal payments on subordinated investment certificates	( 56,671)	( 243,913)
Net principal payments on demand note payable - Stockholder	( 12,709)	( 1,677)
Stockholder's distributions	( 250,000)	( 435,000)
Net cash used in financing activities	<u>( 347,720)</u>	<u>( 3,172,277)</u>
<b>NET INCREASE IN CASH</b>	<u>67,666</u>	<u>28,228</u>
<b>CASH - BEGINNING</b>	<u>63,659</u>	<u>35,431</u>
<b>CASH - ENDING</b>	<u>\$ 131,325</u>	<u>\$ 63,659</u>

See notes to financial statements.

**SINGER FINANCIAL CORP.**

**Statements of Cash Flows (Continued)**

---

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for		
Interest	\$ 171,558	\$ 331,300

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 \$250,000. 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, 2008 and 2007, 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 \$144,962 and \$169,852 at December 31, 2008 and 2007, 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, 2009 - \$10,488, 2010 - \$8,467, 2011 - \$7,420, 2012 - \$6,335 and 2013 - \$5,080.

***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 \$12,680 and \$20,964 for the years ended December 31, 2008 and 2007, 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,	
	2008	2007
Real estate secured loans		
Current	\$ 5,438,003	\$ 5,399,157
On nonaccrual status	<u>2,007,145</u>	<u>2,120,903</u>
	7,445,148	7,520,060
Unamortized origination costs (fees) - Net	<u>( 353,600)</u>	<u>( 419,401)</u>
	<u>\$ 7,091,548</u>	<u>\$ 7,100,659</u>

At December 31, 2008, the contractual maturities of real estate secured loans receivable are as follows:

	2009	2010	2011	2012	2013	Total
Real estate secured loans	\$ 1,118,802	\$ 1,207,573	\$ 2,086,750	\$ 1,108,003	\$ 1,924,020	\$ 7,445,148
Unamortized origination fees - Net	<u>( 124,810)</u>	<u>( 104,731)</u>	<u>( 68,307)</u>	<u>( 38,241)</u>	<u>( 17,511)</u>	<u>( 353,600)</u>
	<u>\$ 993,992</u>	<u>\$ 1,102,842</u>	<u>\$ 2,018,443</u>	<u>\$ 1,069,762</u>	<u>\$ 1,906,509</u>	<u>\$ 7,091,548</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

	2008	2007
Land	\$ 66,977	\$ 66,977
Auto	65,909	65,909
Building	267,907	267,907
Building improvements	37,335	37,335
Leasehold improvements	193,298	193,298
Office furniture and equipment	47,255	35,465
Construction in progress	161,490	4,799
	840,171	671,690
Less accumulated depreciation	171,413	136,975
	<u>\$ 668,758</u>	<u>\$ 534,715</u>

## 4. NOTES PAYABLE – BANK

	2008	2007
Note payable - Represented the balance of advances to date under a \$5,000,000 line of credit; interest payable monthly at prime (an effective rate of 4.75% at December 31, 2008); collateralized by the loans receivable. The loan agreement also contained 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. The note expired and the balance was paid in full on December 31, 2008	\$ -	\$ 719,480
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 3.25% at December 31, 2008); collateralized by the building and equipment. Balance is due on demand by bank.	750,000	45,780
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 December, 2011; Principal payments on the loan are due as follows: Year ending December 31, 2009 - \$11,147, 2010 - \$11,941, 2011 - \$13,106	36,194	49,274
	<u>\$ 786,194</u>	<u>\$ 814,534</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, 2008 mature as follows:

<u>Year Ending December 31,</u>	<u>Amount (including accrued interest)</u>	<u>Interest Rate</u>
2009	\$ 392,309	6 - 10
2010	591,318	6 - 10.5
2011	240,283	7 - 10.5
2012	134,895	7 - 10.5
2013	1,196,214	7 - 9.5
2014	113,238	8
2015	74,912	8 - 11
2016	178,785	8 - 11
2018	937,374	9 - 10
2019	334,598	7 - 9.5
2020	87,281	7 - 9
2021	818,128	9 - 10
2022	55,266	9 - 10
	<u>\$ 5,154,601</u>	

**6. RELATED PARTY TRANSACTIONS**

The Company leases certain of its facilities to its stockholder under a year-to-year lease, expiring May, 2009. During the years ended December 31, 2008 and 2007, rental income was \$12,000 and \$11,000, respectively.

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, 2008 and 2007.

During the year ended December 31, 2008, the shareholder assumed loans receivable with book values of \$182,214, respectively, from two debtors of the Company.

During the year ended December 31, 2007, an affiliated company assumed loans receivable with book values of \$773,407 from one debtor of the Company.