

**Singer Financial Corp.**  
**Financial Statements**  
**December 31, 2010 and 2009**

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## Independent Auditors' Report

To the Stockholder and Director of  
Singer Financial Corp.

We have audited the accompanying balance sheets of Singer Financial Corp. (the "Company") as of December 31, 2010 and 2009, 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, 2010 and 2009, 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.

*WeiserMazars LLP*

Horsham, PA  
March 24, 2011

**Singer Financial Corp.**  
**Balance Sheets**  
**December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash	\$ 162,707	\$ 106,695
Secured loans receivable:		
Loan portfolio	3,610,479	4,537,454
Stockholder	2,690,886	1,608,228
Affiliates	437,171	632,104
Accrued interest receivable	65,705	89,578
Due from affiliates	815,071	451,453
Due from stockholder	642,481	513,002
Prepaid expenses	4,407	4,407
Property and equipment, net	605,297	640,567
Financing costs, net	50,342	69,388
	<u>\$ 9,084,546</u>	<u>\$ 8,652,876</u>
<b>Total assets</b>		
<b>Liabilities and stockholder's equity</b>		
Liabilities		
Notes payable, bank	\$ 571,565	\$ 508,121
Subordinated investment certificates	5,834,450	5,468,093
	<u>6,406,015</u>	<u>5,976,214</u>
Commitments and contingencies		
Stockholder's equity		
Common stock, no par value; authorized 10,000 shares issued and outstanding 2,000 shares	600,000	600,000
Retained earnings	2,078,531	2,076,662
Total stockholder's equity	<u>2,678,531</u>	<u>2,676,662</u>
<b>Total liabilities and stockholder's equity</b>	<u>\$ 9,084,546</u>	<u>\$ 8,652,876</u>

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

**Singer Financial Corp.**  
**Statements of Income**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Income</b>		
Interest		
Interest income	\$ 801,455	\$ 914,417
Interest expense	<u>482,437</u>	<u>461,283</u>
Net interest income	319,018	453,134
Brokerage and other fees	<u>170,467</u>	<u>200,430</u>
	<u>489,485</u>	<u>653,564</u>
<b>Operating expenses</b>		
General and administrative	438,631	501,906
Depreciation and amortization	<u>54,316</u>	<u>53,305</u>
	<u>492,947</u>	<u>555,211</u>
<b>(Loss) income from operations</b>	<u>(3,462)</u>	<u>98,353</u>
Other income (expense)		
Bank interest expense	(6,669)	(22,518)
Rental income	<u>12,000</u>	<u>12,000</u>
	<u>5,331</u>	<u>(10,518)</u>
<b>Net income</b>	<u>\$ 1,869</u>	<u>\$ 87,835</u>

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

**Singer Financial Corp.**  
**Statements of Stockholder's Equity**  
**Years Ended December 31, 2010 and 2009**

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	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>		
Balance, January 1, 2009	2,000	\$ 600,000	\$ 1,988,827	\$ 2,588,827
Net income			87,835	87,835
Balance, December 31, 2009	2,000	600,000	2,076,662	2,676,662
Net income			1,869	1,869
<b>Balance, December 31, 2010</b>	<b>2,000</b>	<b>\$ 600,000</b>	<b>\$ 2,078,531</b>	<b>\$ 2,678,531</b>

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

**Singer Financial Corp.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 1,869	\$ 87,835
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of loan origination fees	(152,815)	(127,285)
Depreciation of property and equipment	35,270	35,655
Amortization of financing costs	19,046	17,650
Increase in accrued interest on subordinated investment certificates	176,699	106,760
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accrued interest receivable	(13,500)	(13,839)
<b>Net cash provided by operating activities</b>	<u>66,569</u>	<u>106,776</u>
<b>Cash flows from investing activities</b>		
Loans originated	(792,762)	(212,523)
Loan fees received	33,500	23,500
Loan payments received	761,384	911,161
Advances to stockholder	(129,479)	(513,888)
Advances to affiliates	(136,302)	(231,453)
Purchase of property and equipment	-	(7,464)
<b>Net cash used in investing activities</b>	<u>(263,659)</u>	<u>(30,667)</u>
<b>Cash flows from financing activities</b>		
Financing costs incurred	-	(29,398)
Proceeds of notes payable, bank	100,000	-
Principal payments on notes payable, bank	(36,556)	(278,073)
Proceeds from issuance of subordinated investment certificates	422,875	452,048
Principal payments on subordinated investment certificates	(233,217)	(245,316)
<b>Net cash provided by (used in) financing activities</b>	<u>253,102</u>	<u>(100,739)</u>
<b>Net increase (decrease) in cash</b>	<b>56,012</b>	<b>(24,630)</b>
<b>Cash</b>		
Beginning	106,695	131,325
Ending	<u>\$ 162,707</u>	<u>\$ 106,695</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the year for interest \$ 489,106    \$ 371,550

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

Loans receivable plus accrued interest receivable totaling \$1,157,493 and \$1,643,745 were assumed by the stockholder of the Company during the years ended December 31, 2010 and 2009, respectively.

Loans receivable of \$404,788 were assumed by an affiliate of the Company during the year ended December 31, 2009.

Building improvements of \$161,490 were transferred out of construction in progress and placed in service during the year ended December 31, 2009.

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

**1. Summary of Significant Accounting Policies**

**Nature of Business**

Singer Financial Corp. (the "Company") makes, holds, and services commercial loans to customers in Pennsylvania, New Jersey and Delaware. The Company 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.

**Variable Interest Entities**

Variable interest entities (VIEs) are primarily entities that lack sufficient equity to finance their activities without additional subordinated financial support from other parties or whose equity holders as a group lack certain power, obligations, or rights. All VIEs with which the Company is involved are evaluated to determine whether the Company has a controlling financial interest in the VIE and is, therefore, the primary beneficiary of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

The Shareholder has a controlling financial interest in certain entities, including Leah One, Inc., Julia Two Corporation, and Vass, Inc. The Company has concluded that all three companies are VIEs, but do not require consolidation as Singer Financial Company is not the primary beneficiary.

**Use of Estimates**

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 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.

**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.

**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.

Loans go on non-accrual status after one hundred and twenty days with no payments. Interest is accrued on these loans for a maximum of ninety days. An allowance for credit losses is provided as necessary based upon the expected collectability of loans outstanding. All loans receivable are collateralized by the underlying real estate. At December 31, 2010 and 2009, no allowance for credit losses was deemed necessary since collateral values, based on management's appraisals, were considered adequate to cover outstanding loan balances.

Loans are transferred to the stockholder or affiliated companies (that are owned by the stockholder) when the stockholder or affiliated companies purchase the properties and assume the mortgage that the Company is holding. The loans are still collateralized by the real estate now owned by these related parties.



**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).

**Financing Costs and Amortization**

Financing costs of \$174,360 at December 31, 2010 and 2009, incurred in connection with the public offering of subordinated investment certificates, are being amortized on a straight-line basis over the average term of the certificates. Amortization expense was \$19,046 and \$17,650 for the years ended December 31, 2010 and 2009, respectively. Total accumulated amortization for the years ended December 31, 2010 and 2009 was \$124,018 and \$104,972, respectively.

**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.

**Advertising Costs**

Advertising costs are expensed as they are incurred. Total advertising costs, included in general and administrative expenses, were \$23,205 and \$9,799 for the years ended December 31, 2010 and 2009, respectively.

**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. The Company files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. The Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2007.

**Subsequent Events**

The Partnership has evaluated subsequent events through March 24, 2011, the date the financial statements were available for issuance.

**Reclassifications**

Certain accounts in the 2009 financial statements have been reclassified to conform with the 2010 presentation.

**2. Loans Receivable, Portfolio**

	<u>2010</u>	<u>2009</u>
Real estate secured loans		
Current	\$ 2,899,460	\$ 3,351,059
On nonaccrual status	<u>841,269</u>	<u>1,400,443</u>
	3,740,729	4,751,502
Unamortized origination costs (fees), net	<u>(130,250)</u>	<u>(214,048)</u>
	<u>\$ 3,610,479</u>	<u>\$ 4,537,454</u>

**Singer Financial Corp.**  
**Notes to Financial Statements**  
**Years Ended December 31, 2010 and 2009**

At December 31, 2010, the contractual maturities of real estate secured loans receivable are as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Real estate secured loans	\$ 1,020,796	\$ 687,752	\$ 1,500,426	\$ 196,009	\$ 335,746	\$ 3,740,729
Unamortized origination fees, net	<u>(48,918)</u>	<u>(43,327)</u>	<u>(26,378)</u>	<u>(7,592)</u>	<u>(4,035)</u>	<u>(130,250)</u>
	<u>\$ 971,878</u>	<u>\$ 644,425</u>	<u>\$ 1,474,048</u>	<u>\$ 188,417</u>	<u>\$ 331,711</u>	<u>\$ 3,610,479</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. Loans Receivable, Related Parties**

	<u>2010</u>	<u>2009</u>
Real estate secured loans		
Stockholder	\$ 2,690,886	\$ 1,643,745
Unamortized origination fees		(35,517)
	<u>2,690,886</u>	1,608,228
Affiliates	<u>437,171</u>	<u>632,104</u>
	<u>3,128,057</u>	2,240,332
Unsecured loans		
Stockholder	642,481	513,002
Affiliates	<u>815,071</u>	<u>451,453</u>
	<u>\$ 4,585,609</u>	<u>\$ 3,204,787</u>

**Singer Financial Corp.**  
**Notes to Financial Statements**  
**Years Ended December 31, 2010 and 2009**

**4. Property and Equipment**

	<u>2010</u>	<u>2009</u>
Land	\$ 66,977	\$ 66,977
Auto	65,909	65,909
Building	267,907	267,907
Building improvements	206,289	206,289
Leasehold improvements	193,298	193,298
Office furniture and equipment	<u>47,255</u>	<u>47,255</u>
	847,635	847,635
Less accumulated depreciation	<u>242,338</u>	<u>207,068</u>
	<u>\$ 605,297</u>	<u>\$ 640,567</u>

**5. Notes Payable, Bank**

	<u>2010</u>	<u>2009</u>
Note payable, advances under a \$945,000 line of credit; interest payable monthly at prime rate, with a floor of 4%, (an effective rate of rate of 4.0% at December 31, 2010); collateralized by the building and equipment. The line expires November 1, 2011.	\$ 567,458	\$ 487,237
Note payable, auto loan payable in monthly installments of \$1,108, including interest at 6.9%, through December 2011.	<u>4,107</u>	<u>20,884</u>
	<u>\$ 571,565</u>	<u>\$ 508,121</u>

At December 31, 2010, maturities of notes payable, bank are as follows:

<u>Year Ending December 31,</u>	
2011	<u>\$ 571,565</u>

**6. 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 4.5% and a maximum of 11%. 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.

**Singer Financial Corp.**  
**Notes to Financial Statements**  
**Years Ended December 31, 2010 and 2009**

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Certificates outstanding at December 31, 2010 mature as follows:

<u>Years Ending December 31,</u>	<u>Amount (including accrued interest)</u>	<u>Interest Rate (%)</u>
2011	\$ 249,915	4.5 - 10.5
2012	183,866	5.5 - 10.25
2013	1,153,562	5.0 - 9.5
2014	177,355	6.5 - 8
2015	179,947	5.7 - 11
2016	166,428	7.8 - 11
2017	362,878	6.6 - 8
2018	735,244	9 - 10
2019	538,952	8.1 - 9.5
2020	203,287	7 - 9
2021	939,423	9 - 10
2022	13,829	9
2024	523,606	8.9 - 9.3
2025	406,158	8.2 - 9.2
	<u>\$ 5,834,450</u>	

**7. Related Party Transactions**

The Company advances funds to the shareholder, to companies affiliated by common ownership, or to a company owned by a relative of the Company's stockholder. These loans are noninterest bearing.

Occasionally, these affiliated companies or the shareholder purchase the properties of Singer Financial Corp.'s foreclosed loans. These affiliated companies then become responsible for the corresponding loan receivable. There was no interest charged for the year ending December 31, 2009. As of December 31, 2010, these loans bear interest 8% annually. Total interest income from these related loans receivable was \$156,447 for the year ended December 31, 2010.

The Company leases certain of its facilities to its stockholder under a year-to-year lease, expiring May, 2011. For each of the years ended December 31, 2010 and 2009, rental income was \$12,000.

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, 2010 and 2009.

During the years ended December 31, 2010 and 2009, the stockholder assumed loans receivable and accrued interest of \$1,157,493 and \$1,643,745 from debtors of the Company.

**8. Contingent Liabilities**

The Company is party to various claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance are without merit if not covered, or, in the even of unfavorable disposition, would not have a material effect on the financial position, results of operations or cash flows of the Company.