

WeiserMazars LLP

**Singer Financial
Corporation**

Financial Statements

December 31, 2011 and 2010



WeiserMazars

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	Page(s)
Independent Auditors' Report	F-2
Financial Statements	
Balance Sheets	F-3
Statements of Income	F-4
Statements of Stockholder's Equity	F-5
Statements of Cash Flows	F-6
Notes to Financial Statements	F-7-10

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, 2011 and 2010, 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, 2011 and 2010, 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.

Weiser Mazars LLP

March 12, 2012

Singer Financial Corp.
Balance Sheets
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash	\$ 27,756	\$ 162,707
Secured loans receivable:		
Loan portfolio	5,196,697	3,610,479
Stockholder	1,524,388	2,690,886
Affiliates	437,171	437,171
Accrued interest receivable	70,684	65,705
Due from affiliates	944,571	815,069
Due from stockholder	948,605	642,481
Prepaid expenses	5,905	4,409
Property and equipment, net	570,706	605,297
Financing costs, net	<u>31,295</u>	<u>50,342</u>
 Total assets	 <u><u>\$ 9,757,778</u></u>	 <u><u>\$ 9,084,546</u></u>
 Liabilities and Stockholder's Equity		
Liabilities		
Notes payable, bank	\$ 731,662	\$ 571,565
Subordinated investment certificates	<u>6,474,051</u>	<u>5,834,450</u>
	<u>7,205,713</u>	<u>6,406,015</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	<u>1,952,065</u>	<u>2,078,531</u>
Total stockholder's equity	<u>2,552,065</u>	<u>2,678,531</u>
 Total liabilities and stockholder's equity	 <u><u>\$ 9,757,778</u></u>	 <u><u>\$ 9,084,546</u></u>

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

Singer Financial Corp.
Statements of Income
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Income		
Interest		
Interest income	\$ 867,437	\$ 801,455
Interest expense	<u>550,135</u>	<u>482,437</u>
Net interest income	317,302	319,018
Brokerage and other fees	<u>203,529</u>	<u>170,467</u>
	<u>520,831</u>	<u>489,485</u>
Operating expenses		
General and administrative	441,001	438,631
Depreciation and amortization	<u>53,638</u>	<u>54,316</u>
	<u>494,639</u>	<u>492,947</u>
Income (loss) from operations	<u>26,192</u>	<u>(3,462)</u>
Other income (expense)		
Bank interest expense	(14,658)	(6,669)
Rental income	<u>12,000</u>	<u>12,000</u>
	<u>(2,658)</u>	<u>5,331</u>
Net income	<u>\$ 23,534</u>	<u>\$ 1,869</u>

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

Singer Financial Corp.
Statements of Stockholder's Equity
Years Ended December 31, 2011 and 2010

	Common Stock		Retained Earnings	Total
	Number of Shares	Amount		
Balance, January 1, 2010	2,000	\$ 600,000	\$ 2,076,662	\$ 2,676,662
Net income			1,869	1,869
Balance, December 31, 2010	2,000	600,000	2,078,531	2,678,531
Net income			23,534	23,534
Distributions			(150,000)	(150,000)
Balance, December 31, 2011	<u>2,000</u>	<u>\$ 600,000</u>	<u>\$ 1,952,065</u>	<u>\$ 2,552,065</u>

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

Singer Financial Corp.
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Net income	\$ 23,534	\$ 1,869
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of loan origination fees	(91,028)	(152,815)
Depreciation of property and equipment	34,591	35,270
Amortization of financing costs	19,047	19,046
Increase in accrued interest on stockholder and related party loans	(337,846)	(156,447)
Increase in accrued interest on subordinated investment certificates	375,206	176,699
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accrued interest receivable	(12,032)	(13,500)
Prepaid expenses	(1,496)	-
Net cash provided by (used in) operating activities	<u>9,976</u>	<u>(89,878)</u>
Cash flows from investing activities		
Loans originated	(2,821,343)	(636,315)
Loan fees received	154,041	33,500
Loan payments received	2,683,509	761,384
Advances to stockholder	(306,124)	(129,479)
Advances to affiliates	(129,502)	(136,302)
Net cash used in investing activities	<u>(419,419)</u>	<u>(107,212)</u>
Cash flows from financing activities		
Proceeds of notes payable, bank	1,275,000	100,000
Principal payments on notes payable, bank	(1,114,903)	(36,556)
Proceeds from issuance of subordinated investment certificates	355,281	422,875
Principal payments on subordinated investment certificates	(90,886)	(233,217)
Stockholder's distributions	(150,000)	-
Net cash provided by financing activities	<u>274,492</u>	<u>253,102</u>
Net (decrease) increase in cash	(134,951)	56,012
Cash		
Beginning	162,707	106,695
Ending	<u>\$ 27,756</u>	<u>\$ 162,707</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 188,372	\$ 489,106

Supplemental disclosure of noncash investing and financing activities

Loans receivable plus accrued interest receivable totaling \$332,828 and \$1,157,493 were assumed by the stockholder of the Company during the years ended December 31, 2011 and 2010, respectively.

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 stockholder 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 Corporation 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, 2011 and 2010, 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).

Singer Financial Corp.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

Financing Costs and Amortization

Financing costs of \$174,360 at December 31, 2011 and 2010, 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 \$19,047 and \$19,046 for the years ended December 31, 2011 and 2010, respectively. Total accumulated amortization for the years ended December 31, 2011 and 2010 was \$143,065 and \$124,018, 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 \$17,241 and \$23,205 for the years ended December 31, 2011 and 2010, 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 2008.

Subsequent Events

The Company has evaluated subsequent events through March 12, 2012, which is the date these financial statements were available for issuance. All subsequent events requiring recognition as of December 31, 2011, have been incorporated in these financial statements.

2. Loans Receivable, Portfolio

	<u>2011</u>	<u>2010</u>
Real estate secured loans		
Current	\$ 4,800,691	\$ 2,899,460
On nonaccrual status	589,269	841,269
	<u>5,389,960</u>	<u>3,740,729</u>
Unamortized origination costs (fees), net	<u>(193,263)</u>	<u>(130,250)</u>
	<u>\$ 5,196,697</u>	<u>\$ 3,610,479</u>

At December 31, 2011, the contractual maturities of real estate secured loans receivable are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Real estate secured loans	\$ 1,595,932	\$ 1,391,690	\$ 267,711	\$ 337,972	\$ 1,796,655	\$ 5,389,960
Unamortized origination fees, net	<u>(66,631)</u>	<u>(49,021)</u>	<u>(31,144)</u>	<u>(27,826)</u>	<u>(18,641)</u>	<u>(193,263)</u>
	<u>\$ 1,529,301</u>	<u>\$ 1,342,669</u>	<u>\$ 236,567</u>	<u>\$ 310,146</u>	<u>\$ 1,778,014</u>	<u>\$ 5,196,697</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.

Singer Financial Corp.
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

3. Loans Receivable, Related Parties

	<u>2011</u>	<u>2010</u>
Real estate secured loans		
Stockholder	\$ 1,519,552	\$ 2,690,886
Unamortized origination fees	4,836	-
	<u>1,524,388</u>	<u>2,690,886</u>
Affiliates	437,171	437,171
	<u>1,961,559</u>	<u>3,128,057</u>
Unsecured loans		
Affiliates	944,571	815,071
Stockholder	948,605	642,481
	<u>1,893,176</u>	<u>1,457,552</u>
	<u>\$ 3,854,735</u>	<u>\$ 4,585,609</u>

4. Property and Equipment

	<u>2011</u>	<u>2010</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	47,255	47,255
	<u>847,635</u>	<u>847,635</u>
Less accumulated depreciation	276,929	242,338
	<u>\$ 570,706</u>	<u>\$ 605,297</u>

5. Notes Payable, Bank

	<u>2011</u>	<u>2010</u>
Note payable, advances under a \$945,000 line of credit; interest payable monthly at prime rate, with a floor of 3.75%, (an rate of 4.0% at December 31, 2010); collateralized by the building and equipment. The line expires November 1, 2012.	\$ 731,662	\$ 567,458
Note payable, auto loan payable in monthly installments of including interest at 6.9%, repaid in 2011.	-	4,107
	<u>\$ 731,662</u>	<u>\$ 571,565</u>

At December 31, 2011, maturities of notes payable, bank are as follows:

Year Ending December 31,

2012 \$ 731,662

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 5.5% 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.

Certificates outstanding at December 31, 2011 mature as follows:

<u>Years Ending December 31,</u>	<u>Amount (including accrued interest)</u>	<u>Interest Rate (%)</u>
2012	\$ 167,773	5.5 - 10.25
2013	955,907	5.0 - 9.5
2014	127,072	6.5 - 8
2015	193,591	5.7 - 11
2016	506,458	7.8 - 11
2017	172,629	6.6 - 8
2018	962,620	9 - 10
2019	548,596	8.1 - 9.5
2020	180,451	7 - 9
2021	1,247,172	9 - 10
2022	15,132	9
2024	527,074	8.9 - 9.3
2025	451,023	8.2 - 9.2
2026	418,553	7.9 - 9.2
	<u>\$ 6,474,051</u>	

7. Related Party Transactions

The Company advances funds to the stockholder, 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 stockholder purchase the properties of Singer Financial Corp.'s foreclosed loans. These affiliated companies then become responsible for the corresponding loan receivable. As of December 31, 2011, these loans bear interest at 8% annually. Total interest income from these related loans receivable were \$337,846 and \$156,447 for the years ended December 31, 2011 and 2010, respectively.

The Company leases certain of its facilities to its stockholder under a year-to-year lease, expiring May, 2012. For each of the years ended December 31, 2011 and 2010, 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, 2011 and 2010.

During the years ended December 31, 2011 and 2010, the stockholder assumed loans receivable and accrued interest of \$332,828 and \$1,157,493, respectively, 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 event of unfavorable disposition, would not have a material effect on the financial position, results of operations or cash flows of the Company.

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