

WeiserMazars LLP

**Singer Financial
Corporation**

Financial Statements

December 31, 2013 and 2012



WeiserMazars

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Independent Accountants' Compilation Report

To the Stockholder and Director of
Singer Financial Corp.

We have compiled the accompanying the balance sheets of Singer Financial Corporation as of December 31, 2013 and 2012, and the related statements of operations, stockholder's equity and cash flows for the years then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the Unites States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

WeiserMazars LLP

May 20, 2014

Singer Financial Corp.
Balance Sheets
December 31, 2013 and 2012
(See Independent Accountants' Compilation Report)

	<u>2013</u>	<u>2012</u>
Assets		
Cash	\$ 1,319,606	\$ 6,660
Secured loans receivable:		
Loan portfolio	3,357,795	5,290,451
Stockholder	1,773,069	1,678,778
Affiliates	437,171	437,171
Accrued interest receivable	44,078	71,437
Due from affiliates	992,071	972,071
Due from stockholder	1,021,399	1,081,589
Prepaid expenses	23,295	8,155
Property and equipment, net	676,971	582,698
Financing costs, net	33,426	19,036
	<u> </u>	<u> </u>
Total assets	<u>\$ 9,678,881</u>	<u>\$ 10,148,046</u>
 Liabilities and Stockholder's Equity		
Liabilities		
Notes payable, bank	\$ 986,303	\$ 1,138,945
Notes payable, other	668,819	187,646
Subordinated investment certificates	5,888,095	6,521,681
	<u> </u>	<u> </u>
Total liabilities	<u>7,543,217</u>	<u>7,848,272</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	1,535,664	1,699,774
Total stockholder's equity	<u>2,135,664</u>	<u>2,299,774</u>
	<u> </u>	<u> </u>
Total liabilities and stockholder's equity	<u>\$ 9,678,881</u>	<u>\$ 10,148,046</u>

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

Singer Financial Corp.
Statements of Operations
Years Ended December 31, 2013 and 2012
(See Independent Accountants' Compilation Report)

	<u>2013</u>	<u>2012</u>
Income		
Interest		
Interest income	\$ 555,448	\$ 658,605
Interest expense	<u>555,842</u>	<u>569,337</u>
Net interest (expense) income	(394)	89,268
Brokerage and other fees	<u>180,440</u>	<u>133,451</u>
	<u>180,046</u>	<u>222,719</u>
Operating expenses		
General and administrative	407,409	409,363
Depreciation and amortization	<u>26,633</u>	<u>35,701</u>
	<u>434,042</u>	<u>445,064</u>
Gain on sale of property	<u>110,194</u>	<u>-</u>
Loss from operations	<u>(143,802)</u>	<u>(222,345)</u>
Other expense		
Bank interest expense	(42,458)	(41,946)
Rental income	<u>22,150</u>	<u>12,000</u>
	<u>(20,308)</u>	<u>(29,946)</u>
Net loss	<u>\$ (164,110)</u>	<u>\$ (252,291)</u>

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

Singer Financial Corp.
Statements of Stockholder's Equity
Years Ended December 31, 2013 and 2012
(See Independent Accountants' Compilation Report)

	Common Stock		Retained Earnings	Total
	Number of Shares	Amount		
Balance, January 1, 2012	2,000	\$ 600,000	\$ 1,952,065	\$ 2,552,065
Net loss			(252,291)	(252,291)
Balance, December 31, 2012	2,000	600,000	1,699,774	2,299,774
Net loss			(164,110)	(164,110)
Balance, December 31, 2013	<u>2,000</u>	<u>\$ 600,000</u>	<u>\$ 1,535,664</u>	<u>\$ 2,135,664</u>

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

Singer Financial Corp.
Statements of Cash Flows
Years Ended December 31, 2013 and 2012
(See Independent Accountants' Compilation Report)

	2013	2012
Cash flows from operating activities		
Net loss	\$ (164,110)	\$ (252,291)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of loan origination fees	(124,972)	(82,165)
Depreciation of property and equipment	21,767	23,442
Gain on sale of property	(110,194)	
Amortization of financing costs	4,866	12,259
Increase in accrued interest on stockholder and related party loans	(23,988)	(4,955)
Increase in accrued interest on notes payable	23,306	
Increase in accrued interest on subordinated investment certificates	330,186	304,160
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accrued interest receivable	27,359	(8,160)
Prepaid expenses	(15,140)	(2,250)
Net cash used in operating activities	<u>(30,920)</u>	<u>(9,960)</u>
Cash flows from investing activities		
Loans originated	(961,544)	(877,285)
Loan fees received	56,750	56,000
Loan payments received	2,489,593	667,668
Advances from (to) stockholder	60,190	(132,984)
Advances to affiliates	(20,000)	(39,000)
Proceeds from sale of property	396,679	-
Purchase of property and equipment	-	(35,434)
Net cash provided by (used in) investing activities	<u>2,021,668</u>	<u>(361,035)</u>
Cash flows from financing activities		
Financing costs incurred	(19,256)	-
Proceeds of notes payable, bank	1,000,000	780,000
Principal payments on notes payable, bank	(1,152,642)	(372,717)
Proceeds from notes payable	181,000	25,000
Principal and interest payments on subordinated investment certificates	(686,904)	(82,384)
Net cash (used in) provided by financing activities	<u>(677,802)</u>	<u>349,899</u>
Net increase (decrease) in cash	1,312,946	(21,096)
Cash		
Beginning	6,660	27,756
Ending	<u>1,319,606</u>	<u>\$ 6,660</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 746,291	\$ 398,532

Supplemental disclosure of noncash investing and financing activities

Loans receivable plus accrued interest receivable totaling \$487,417 and \$247,729 were assumed by the stockholder of the Company during the years ended December 31, 2013 and 2012, respectively.

During the year ended December 31, 2013, the Company transferred loans receivables plus accrued interest totaling \$402,526 to fixed assets upon foreclosure of the related properties.

During the year ended December 31, 2012, a subordinated investment certificate, was transferred to a related company at a discount of \$11,500.

Matured subordinated investment certificates, with principal and accrued interest totaling \$276,867 and \$162,646, were reclassified as notes payable during the years ended December 31, 2013 and 2012, respectively.

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

Singer Financial Corp.
Notes to Financial Statements
Years Ended December 31, 2013 and 2012
(See Independent Accountants' Compilation Report)

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 three banks. 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, 2013 and 2012, 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.
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Property and Equipment and Depreciation (continued)

The Company reviews its investment in real estate held for lease for impairment whenever events or circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the real estate and any estimated proceeds from the eventual disposition of the real estate. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. There were no impairment losses recognized during the years ended December 31, 2013 and 2012.

Financing Costs and Amortization

Financing costs of \$174,360 at December 31, 2013 and 2012, 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. Financing costs of \$19,256 at December 31, 2013 were incurred in connection with obtaining the new bank note payable, are being amortized on a straight-line basis over the life of the loan. Amortization expense was \$4,866 and \$12,259 for the years ended December 31, 2013 and 2012, respectively. Total accumulated amortization as of December 31, 2013 and 2012 was \$160,190 and \$155,324, 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 \$9,000 and \$12,204 for the years ended December 31, 2013 and 2012, 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 2009.

Subsequent Events

The Company has evaluated subsequent events through May 20, 2014, the date these financial statements were available for issuance. All subsequent events requiring recognition as of December 31, 2013, have been incorporated in these financial statements.

2. Loans Receivable, Portfolio

	<u>2013</u>	<u>2012</u>
Real estate secured loans		
Current	\$ 2,638,027	\$ 4,349,779
On nonaccrual status	818,644	1,107,770
	<u>3,456,671</u>	<u>5,457,549</u>
Unamortized origination costs (fees), net	<u>(98,876)</u>	<u>(167,098)</u>
	<u>\$ 3,357,795</u>	<u>\$ 5,290,451</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
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(See Independent Accountants' Compilation Report)

2. Loans Receivable, Portfolio (continued)

At December 31, 2013, the contractual maturities of real estate secured loans receivable are as follows:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Real estate secured loans	\$ 1,368,577	\$ 520,627	\$ 650,026	\$ 194,292	\$ 402,491	\$ 320,658	\$ 3,456,671
Amortization of origination fees	<u>(29,115)</u>	<u>(26,367)</u>	<u>(21,516)</u>	<u>(13,184)</u>	<u>(8,324)</u>	<u>(370)</u>	<u>(98,876)</u>
	<u>\$ 1,339,462</u>	<u>\$ 494,260</u>	<u>\$ 628,510</u>	<u>\$ 181,108</u>	<u>\$ 394,167</u>	<u>\$ 320,288</u>	<u>\$ 3,357,795</u>

3. Loans Receivable, Related Parties

	<u>2013</u>	<u>2012</u>
Real estate secured loans		
Stockholder	\$ 1,773,069	\$ 1,674,524
Unamortized origination fees	-	4,254
	<u>1,773,069</u>	<u>1,678,778</u>
Affiliates	<u>437,171</u>	<u>437,171</u>
	2,210,240	2,115,949
Unsecured loans		
Affiliates	992,071	972,071
Stockholder	<u>1,021,399</u>	<u>1,081,589</u>
	<u>\$ 4,223,710</u>	<u>\$ 4,169,609</u>

4. Property and Equipment

	<u>2013</u>	<u>2012</u>
Land	\$ 183,017	\$ 66,977
Auto	65,909	65,909
Building	267,907	267,907
Building improvements	241,722	241,722
Leasehold improvements	193,298	193,298
Office furniture and equipment	<u>47,256</u>	<u>47,256</u>
	999,109	883,069
Less accumulated depreciation	<u>322,138</u>	<u>300,371</u>
	<u>\$ 676,971</u>	<u>\$ 582,698</u>

Singer Financial Corp.
Notes to Financial Statements
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5. Notes Payable

Note Payable, Bank

	<u>2013</u>	<u>2012</u>
A \$1,000,000 loan; payable in monthly installments of \$6,631 including interest at 5%; final payment due on July 1, 2018; collateralized by the building.	\$ 986,303	\$ -
Advances under a \$1,500,000 line of credit; interest payable monthly at prime rate, with a floor of 3.75%, (an effective rate of 3.75% at December 31, 2012); collateralized by the building and equipment; personally guaranteed by the stockholder; expired August 31, 2013.	-	1,138,945
	<u>\$ 986,303</u>	<u>\$ 1,138,945</u>

Notes Payable, Other

The Company has various promissory notes payable to third party individuals. These notes expire at various dates from ten to fifteen years from date of receipt. These notes accrue interest annually, with a range from 6-7%.

Principal payments on notes payables are due as follows:

<u>Years Ending December 31,</u>	<u>Bank</u>	<u>Other</u>
2014	\$ 30,962	\$ -
2015	32,546	
2016	34,211	
2017	35,961	
2018	852,623	
Thereafter		668,819
	<u>\$ 986,303</u>	<u>\$ 668,819</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 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
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6. Subordinated Investment Certificates (continued)

Certificates outstanding at December 31, 2013 mature as follows:

<u>Years Ending December 31,</u>	<u>Amount (including accrued interest)</u>	<u>Interest Rate (%)</u>
2014	\$ 189,451	4.63 - 8
2015	170,356	5.43 - 11
2016	549,076	5.27 - 11
2017	196,571	6.6 - 8.04
2018	1,038,558	6.38 - 10
2019	648,627	7 - 9.5
2020	193,347	7.29 - 9
2021	1,441,382	7.05 - 10
2022	18,115	9
2024	535,024	8.91 - 9.27
2025	485,018	8.22 - 9.26
2026	422,570	7.99 - 9.17
	<u>\$ 5,888,095</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, 2013, these loans bear interest at 8% annually. Total interest income from these related loans receivable were \$23,988 and \$4,955 for the years ended December 31, 2013 and 2012, respectively.

The Company leases certain of its facilities to its stockholder under a year-to-year lease, expiring May, 2013. Rental income was \$15,000 and \$12,000 for the years ended December 31, 2013 and 2012, 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, 2013 and 2012.

During the years ended December 31, 2013 and 2012, the stockholder assumed loans receivable and accrued interest of \$487,417 and \$247,729, respectively, from debtors of the Company. The related collateral was transferred also.

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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