

## **IGNITE FUNDING, LLC**

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### **Financial Statements and**

### **Independent Auditor's Report**

**As of and For the Years Ended December 31, 2014 and 2013**

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### **Financial Statements**

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## Independent Auditor's Report

To the Members of  
Ignite Funding, LLC

We have audited the accompanying financial statements of Ignite Funding, LLC which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ignite Funding, LLC as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Stewart, Archibald & Barney, LLP*

Las Vegas, Nevada  
March 30, 2015

# Ignite Funding, LLC

## Balance Sheets

<i>December 31,</i>	2014	2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 416,855	\$ 435,839
Loan fees receivable	103,917	112,878
Mortgage investments	739,380	157,105
Related party receivables	661	502
Prepaid expenses and other assets	106,156	54,828
	1,366,969	761,152
Security deposit	39,178	59,178
Property and equipment, net	101,501	146,329
	\$ 1,507,648	\$ 966,659
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 133,141	\$ -
Accrued payroll	97,124	72,913
Deferred revenue	-	3,383
Accrued expenses	134,039	142,504
	364,304	218,800
Members' equity	1,143,344	747,859
	\$ 1,507,648	\$ 966,659

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

# Ignite Funding, LLC

## Statements of Operations

<i>Years ended December 31,</i>	<b>2014</b>	<b>2013</b>
<b>Revenue</b>		
Loan fees	\$ 3,953,149	\$ 2,972,204
Interest	45,846	41,640
Other	43,219	100,647
	<b>4,042,214</b>	<b>3,114,491</b>
<b>Expenses</b>		
Compensation and payroll related expenses	1,697,242	1,402,730
Advertising and promotion	28,638	116,320
Rent	320,656	289,865
Depreciation	54,031	51,037
Office and administration	400,691	315,584
Bank fees	20,630	27,267
Telephone	2,817	3,493
Postage and printing	18,211	32,851
Professional fees	252,176	88,789
Licenses and bonds	17,924	9,968
Recording and title fees	924	2,815
Taxes	12,106	5,343
Meals and entertainment	6,387	27,655
Travel	18,270	26,202
Other	21,629	13,129
	<b>2,872,332</b>	<b>2,413,048</b>
Net income attributable to members	\$ 1,169,882	\$ 701,443

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

# Ignite Funding, LLC

## Statements of Changes in Equity

	<b>Members' Equity</b>
Balance, January 1, 2013	\$ 628,732
Contributions	-
Distributions	(582,316)
Net Income	701,443
Balance, December 31, 2013	747,859
Contributions	-
Distributions	(774,397)
Net income	1,169,882
Balance, December 31, 2014	\$ 1,143,344

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



# Ignite Funding, LLC

## Statements of Cash Flows

<i>Years ended December 31,</i>	2014	2013
<b>Operating activities</b>		
Net income	\$ 1,169,882	\$ 701,443
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	54,031	51,037
Change in assets and liabilities		
Loan fees receivable	8,961	(9,773)
Related party receivables	(159)	8,106
Prepaid expenses and other assets	(51,328)	7,504
Security deposit	20,000	(9,178)
Accounts payable	133,141	(3,482)
Accrued payroll	24,211	21,609
Accrued expenses	(8,465)	(43,655)
Deferred revenue	(3,383)	3,383
<b>Cash provided by operating activities</b>	<b>1,346,891</b>	<b>726,994</b>
<b>Investing activities</b>		
Net investment in real estate mortgages	(582,275)	(8,130)
Purchase of property and equipment	(9,203)	(132,220)
<b>Cash used in investing activities</b>	<b>(591,478)</b>	<b>(140,350)</b>
<b>Financing activities</b>		
Distributions to members	(774,397)	(582,316)
<b>Cash used in financing activities</b>	<b>(774,397)</b>	<b>(582,316)</b>
<b>Net increase (decrease) in cash</b>	<b>(18,984)</b>	<b>4,328</b>
<b>Cash, beginning of period</b>	<b>435,839</b>	<b>431,511</b>
<b>Cash, end of period</b>	<b>\$ 416,855</b>	<b>\$ 435,839</b>

*e accompanying notes are an integral part of these financial statements.*



**1. Summary  
of Significant  
Accounting  
Policies**

**Principal Business Activity**

Ignite Funding, LLC, (the Company) originates, brokers, and services first trust deeds for the acquisition, development, construction and refinancing of commercial and residential projects currently in Nevada, Utah, California, Colorado, Texas, Arizona, Missouri, and Florida.

The Company's principal business activity is originating, brokering, and servicing first trust deeds for commercial customers, primarily in the construction and development segment.

On April 1, 2013, the Company opened a branch office in Newport Beach, California. The office was opened specifically for the opportunity for expansion and growth of new clients. All support services continue to be maintained in the Nevada office.

**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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

Certain reclassifications have been made in the presentation of the 2013 financial statements to conform to the 2014 financial statement presentation.

**Cash**

Highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company places its temporary excess cash with high quality financial institutions.

**1. Summary  
of Significant  
Accounting  
Policies  
(cont.)**

**Mortgage Investments**

Mortgage investments generally consist of positions taken in individual trust deed investments, are collateralized by real estate, and are generally due within a year. Mortgage investments are intended to be held to maturity, and accordingly are carried at cost, net of any unamortized deferred fees and costs, and any allowance for loan losses. The carrying value of these investments is adjusted for origination discounts/premiums, non-refundable fees and direct costs for originating loans which are amortized into income over the terms of the loans using the effective yield method adjusted for the effects of estimated prepayments. The Company considers a loan to be non-performing when interest and/or principal payments are contractually past due.

**Property and Equipment**

Furniture and equipment are stated at cost. Depreciation is computed on a straight line method over estimated useful lives of 3-7 years for property and equipment listed on Note 3, and the shorter of the life of the asset or the term of the lease for leasehold improvements.

**Advertising**

The Company expenses advertising and related costs as incurred.

**Income Taxes**

The company is a Limited Liability Company (LLC) which provides that the income of the Company is passed on to be taxed to the members of the LLC. As a result, no income tax liability or expense has been recorded.

**Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has not elected for any of its assets or liabilities to be accounted for under Codification 825 *Financial Instruments – Fair Value Option* (ASC 825). Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value, which are in accordance with ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), when applicable.

**1. Summary  
of  
Significant  
Accounting  
Policies  
(cont.)**

**Fair Value (continued)**

In accordance with ASC 820, the following fair value hierarchy was applied:

- Level 1 - Assets or liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments or futures contracts.
- Level 2 - Assets and liabilities valued based on observable market data for similar instruments.
- Level 3 - Assets or liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which is internally developed, and considers risk premiums that a market participant would require.

When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and consider assumptions that market participants would use when pricing the asset or liability. In accordance with the standards, when valuing assets and liabilities, the Company applies the lowest level applicable.

### 1. Summary of Significant Accounting Policies (cont.) Revenue Recognition

Commercial loan brokerage fees are recognized as income when trust deeds are brokered and the related loans are funded. Servicing fees are recognized as earned throughout the term of the loan. The Company serviced approximately \$68 million and \$48 million at December 31, 2014 and 2013, respectively, of residential and commercial mortgage loans for private investors. In the event of a non-performing, defaulted or foreclosed loan, past due maturity fees and other charges related to servicing of such commercial loans in default and foreclosure are recorded as revenue when earned as services are provided and deemed collectible. There were no non-performing, defaulted or foreclosed loans as of December 31, 2014.

Interest income on performing mortgage investments is recognized over the life of the investment and recorded on the accrual basis. Income recognition is suspended for mortgage investments at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of interest and principal becomes doubtful. Income recognition would be resumed when the mortgage investment becomes contractually current and performance is demonstrated to be resumed.

### 2. Mortgage Investments

Mortgage investments represent first lien positions on acquisition, development, construction and refinancing loans. All of the Company's loans had fixed interest rates and provided for payment of interest only with a "balloon" payment of principal payable in full at the end of the loan term. As of December 31, 2014, mortgage investments consisted of five acquisition type loans totaling \$484,700 of which \$141,200 is with a related party, five development type loans totaling \$237,980, and one construction loan for \$16,700. At December 31, 2013, mortgage investments consisted of six acquisition type loans totaling \$127,105, and one development loan for \$30,000.



# Ignite Funding, LLC

## Notes to Financial Statements

3. **Property and Equipment**      Property and equipment consisted of the following:

<i>December 31,</i>		<b>2014</b>		<b>2013</b>
Computer equipment	\$	109,434	\$	105,639
Office equipment		24,900		24,900
Office furniture		173,596		168,188
Vehicles		41,000		41,000
Leasehold improvements		7,821		7,821
		<b>356,751</b>		<b>347,548</b>
Less accumulated depreciation		<b>255,250</b>		<b>201,219</b>
	\$	<b>101,501</b>	\$	<b>146,329</b>

Depreciation expense was \$54,031 and \$51,037 for 2014 and 2013, respectively.

4. **Funds Held in Trust**      The Company had cash held in trust in the amount of \$828,773 and \$534,190 as of December 31, 2014 and 2013, respectively. These amounts represent funds on deposit from investors for future investment, prepaid interest from borrowers yet to be earned by investors, and overpayments of interest to be returned to the borrowers. Cash held in trust was segregated in separate bank accounts and excluded from the Company's assets and liabilities. Cash held in trust may exceed federally insured limits.
5. **Retirement Plan**      The Company has a 401K retirement plan covering all employees meeting certain eligibility requirements. During 2014, the Company matched 3%. The total 401K matching expense was \$37,814. During 2013, the Company made no discretionary contributions to the retirement plan.

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6. **Related Party Transactions** During 2014, the Company subleased office space to I Management Group, LLC, a related party entity. The agreement is month to month and is cancelable by either party. In the event of default, the Company is required to give notice of default for non-payment, giving the tenants 30 days to cure the default. Prior to 2014, the Company subleased office space to RMB Real Estate, LLC, a related party, and the agreement was cancelled at the end of 2013. Related party rental income of \$12,000 was received each year in 2014 and 2013, under these agreements.

During 2014 and 2013, the Company had amounts due from RMB Real Estate, LLC, I Management Group, LLC and Preferred Trust Company, LLC, related party entities, for the reimbursement of certain operating expenses in the amount of \$661 and \$502, respectively. The amounts were due upon demand and do not bear interest. As of December 31, 2014, the Company also had outstanding unsecured promissory notes with RMB Real Estate, LLC for \$28,500 that bear interest at the yearly rate of 10%. There was approximately \$1,000 interest due for these notes at the end of 2014.

During 2014 and 2013, respectively, the Company was the originator and servicer on one note for \$810,000 and three notes totaling approximately \$1.5 million for RMB Real Estate, LLC, a construction and development entity partially owned by management of the Company and therefore a related party. The Company received \$52,793 and \$43,462 in origination, servicing and extension fees on these notes during 2014 and 2013, respectively. Three notes, (two of which were originated in 2011), totaling \$1.6 million were paid off during 2013 and one note originated in 2013 for \$340,000 had pay downs of \$60,000 during 2013 and an additional \$160,000 during 2014.

During 2014 and 2013, respectively, the Company was the originator and servicer on four notes totaling \$700,000 and eight notes totaling approximately \$2.1 million for RMB Live Oak, LLC, a real estate holding company with common management and therefore a related party. The Company received \$71,472 and \$91,990 in origination, servicing and extension fees on these notes during 2014 and 2013, respectively. During 2014 and 2013, respectively, five notes totaling approximately \$1.2 million and two notes, totaling \$322,000 were paid off. In addition, the Company held mortgage investments of \$19,200 and \$58,200 in projects where RMB Live Oak, LLC was the borrower at December 31, 2014 and 2013, respectively.

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6. **Related Party Transactions (cont.)** During 2014 and 2013, respectively, the Company was the originator and servicer on five notes totaling approximately \$1.3 million and five notes totaling \$525,000 for RMB Citrus, LLC, a real estate holding company with common management and therefore a related party. The Company received \$55,417 and \$26,474 in origination, servicing and extension fees on these notes during 2014 and 2013, respectively. In addition, the Company held mortgage investments of \$122,000 and \$26,000 in projects where RMB Citrus, LLC was the borrower at December 31, 2014 and 2013, respectively.

During 2014 and 2013, respectively, the Company was the originator and servicer on one note for \$216,000 and three notes totaling \$265,000 for LF Echo Ridge, LLC, a real estate holding company with common management and therefore a related party. The Company received \$9,717 and \$9,193 in origination, servicing and extension fees on these notes during 2014 and 2013, respectively. There were 2 notes totaling \$130,000 and partial pay downs of \$74,750 during 2014 and one note for \$135,000 was paid off during 2013.

During 2014, the Company was the originator and servicer on one note for \$518,000 for RMB Deal 1, LLC, a real estate holding company with common management and therefore a related party. The Company received \$15,316 in origination and servicing fees on this note during 2014. There was \$80,000 in partial pay downs on this loan during 2014.

As of December 31, 2014 and 2013, respectively, Preferred Trust Company, LLC, a related party entity due to common ownership, held investments of approximately \$2.5 and \$2.4 million with the Company. Another related party, IIG Fund 1, LLC, with common management held approximately \$1.3 million and \$1.4 million of investments with the Company at December 31, 2014 and 2013, respectively.

During 2014 and 2013, respectively, the Company paid \$50,000 and \$120,000 in consulting fees to a related party, ARJ Management.



## Notes to Financial Statements

### 7. Operating Leases

The Company entered into a 5 year non-cancelable operating lease in October 2011, at a new office location in Las Vegas, Nevada. The lease provided for 10 months abatement at 50% of the first 12 months basic rent. The Company subleased 1,100 square feet of their leased space to related parties beginning November 1, 2011, resulting in rent income of \$12,000 each year in 2014 and 2013, respectively. The Company entered into an additional 3 year non-cancelable operating lease in April 2013 in Newport Beach, California. The lease provided for 1 month abatement of the first 12 months basic rent. The Company leases the following office equipment; copy machines, postage machine and telephones under non-cancelable operating leases expiring in April 2015, October 2015 and March 2016, respectively. The following is a schedule of future minimum rental payments under the office building leases and office equipment leases at December 31, 2014:

#### *Years Ending December 31*

2015	\$	322,204
2016		198,278
	\$	520,482

The office space rent expense was \$309,296 and \$277,160 and total expense for all operating leases were \$320,656 and \$289,865 for the years ended December 31, 2014 and 2013, respectively.

### 8. Fair Value

The following table summarizes the carrying values and the estimated values of financial instruments as of December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash	\$ 416,855	\$ 416,855	\$ 435,839	\$ 435,839
Mortgage Investments	\$ 739,380	\$ 739,380	\$ 157,105	\$ 157,105

In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate, estimates of future cash flows and realization of collateral. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The Company takes into account our own credit risk when measuring the fair value of our liabilities.

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8. **Fair Value (cont.)** The Company used the following methods and assumptions in estimating fair value of each class of financial instrument:

*Cash:* The carrying values of cash and short-term instruments approximate fair value, due to the short-term nature of these items.

*Mortgage investments:* Fair value is measured based upon the fair value of the underlying collateral or property less estimated costs to sell based upon the most recent appraisal available to management or recent transaction prices for similar collateral or property, and as such, the carrying values of these instruments approximates fair value (mortgage investments are classified within level 2 of the hierarchy).

At December 31, 2014 and 2013, the Company did not have any assets or liabilities that are measured at fair value on a recurring basis.

The Company has no assets or liabilities measured using non-observable inputs or level 3 valuation techniques.

## Notes to Financial Statements

**9. Commitments and Contingencies** The Company may become subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Company.

**10. Concentrations** The Company has lending relationships with several major borrowers. As of December 31, 2014 and 2013, the Company was servicing \$67.5 million and \$48.2 million, respectively, in outstanding notes. At December 31, 2014, the three largest borrowers were \$18.9 million, \$18 million and \$13.6 million. The three largest borrowers at December 31, 2013 were \$20.9 million, \$15 million, and \$3.7 million (this amount was with a related party entity). Primarily all of the loans originated and serviced by the Company are in the Las Vegas area at \$30.7 million, the greater Salt Lake City area at \$15.3 million, and the North Denver area at \$7 million, including surrounding markets.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2014, and December 31, 2013, the Company had approximately \$197,000 and \$141,000 in excess of FDIC insured limits, respectively.

**11. Regulatory Requirements** The Company is subject to net worth requirements pursuant to the Nevada Revised Statutes 645B.115, which states the mortgage broker must maintain continuously a minimum net worth requirement of \$250,000. As of December 31, 2014 the Company is in compliance with this regulatory requirement.

**12. Subsequent Events** An additional note with RMB Real Estate, a related party, was issued on February 5th, 2015 in the amount of \$15,000 and is due in full by December 31, 2015. The note will accrue interest at the annual rate of 10%.

The Company has 3 investments in mortgage investments that have subsequently gone into default status beginning in January 2015. The investors on these loans have voted to begin foreclosure proceedings. However, the Company believes the collateral would be sufficient to limit their exposure to loss on their investment. The Company holds investments in these loans totaling \$235,200. IIG Fund 1, LLC a related party entity, holds investments totaling \$300,000 in these defaulted loans. At this time, it is unknown if there will be any adverse effects on the Company.

The Company evaluated subsequent events through March 30, 2015, the date the financial statements were available to be issued.

# IGNITE FUNDING, LLC



## **Consolidated Financial Statements and**

## **Independent Auditor's Report**

**As of and For the Years Ended December 31, 2013 and 2012**

# Ignite Funding, LLC

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## Independent Auditor's Report

To the Members  
Ignite Funding, LLC

We have audited the accompanying consolidated financial statements of Ignite Funding, LLC and subsidiary, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ignite Funding, LLC and subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Stewart, Archibald & Barney, LLP*

Las Vegas, Nevada  
March 27, 2014



# Ignite Funding, LLC

## Consolidated Balance Sheets

<i>December 31,</i>	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 435,839	\$ 431,511
Loan fees receivable	112,878	103,105
Mortgage investments	157,105	148,975
Related party receivables	502	8,608
Prepaid expenses and other assets	54,828	62,332
	<u>761,152</u>	<u>754,531</u>
Security deposit	59,178	50,000
Property and equipment, net	<u>146,329</u>	<u>65,146</u>
	<b>\$ 966,659</b>	<b>\$ 869,677</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ -	\$ 3,482
Accrued payroll	72,913	51,304
Deferred revenue	3,383	-
Accrued expenses	<u>142,504</u>	<u>186,159</u>
	<u>218,800</u>	<u>240,945</u>
<b>Members' equity</b>	<u>747,859</u>	<u>628,732</u>
	<b>\$ 966,659</b>	<b>\$ 869,677</b>

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

# Ignite Funding, LLC

## Consolidated Statements of Operations

<i>Years ended December 31,</i>	2013	2012
<b>Revenue</b>		
Commercial loan fees	\$ 2,972,204	\$ 2,294,554
Interest	41,640	13,758
Other	100,647	29,047
	<b>3,114,491</b>	<b>2,337,359</b>
<b>Expenses</b>		
Compensation and payroll related expenses	1,402,730	1,153,696
Interest	-	3,324
Advertising and promotion	116,320	213,396
Rent	289,865	201,877
Depreciation	51,037	39,293
Office and administration	315,584	233,087
Bank fees	27,267	22,557
Telephone	3,493	3,399
Postage and printing	32,851	21,638
Professional fees	88,789	57,324
Licenses and bonds	9,968	18,957
Recording and title fees	2,815	5,162
Taxes	5,343	4,288
Meals and entertainment	27,655	2,165
Travel	26,202	6,112
Other	13,129	14,789
	<b>2,413,048</b>	<b>2,001,064</b>
Net income	<b>701,443</b>	<b>336,295</b>
Less net income attributable to noncontrolling interests	-	185
Net income attributable to members	<b>\$ 701,443</b>	<b>\$ 336,110</b>

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

# Ignite Funding, LLC

## Consolidated Statements of Changes in Equity

	Members' Equity	Noncontrolling Interests	Total
Balance, January 1, 2012	\$ 584,045	\$ 27,046	\$ 611,091
Contributions	27,231	-	27,231
Distributions	(318,654)	-	(318,654)
Net income	336,110	185	336,295
Reclassifications out of Noncontrolling interest		(27,231)	(27,231)
Balance, December 31, 2012	628,732	-	628,732
Contributions	-	-	-
Distributions	(582,316)	-	(582,316)
Net income	701,443	-	701,443
Balance, December 31, 2013	\$ 747,859	\$ -	\$ 747,859

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

# Ignite Funding, LLC

## Consolidated Statements of Cash Flows

<i>Years ended December 31,</i>	2013	2012
<b>Operating activities</b>		
Net income	\$ 701,443	\$ 336,295
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	51,037	39,293
Change in assets and liabilities		
Loan fees receivable	(9,773)	(21,046)
Related party receivables	8,106	13,344
Prepaid expenses and other assets	7,504	(27,645)
Security deposit	(9,178)	-
Accounts payable	(3,482)	3,223
Accrued payroll	21,609	17,251
Accrued expenses	(43,655)	13,708
Deferred revenue	3,383	-
<b>Cash provided by operating activities</b>	<b>726,994</b>	<b>374,423</b>
<b>Investing activities</b>		
Net investment in real estate mortgages	(8,130)	(99,875)
Purchase of property and equipment	(132,220)	(23,021)
<b>Cash used in investing activities</b>	<b>(140,350)</b>	<b>(122,896)</b>
<b>Financing activities</b>		
Distributions to members	(582,316)	(318,654)
Repayment of notes payable to related party	-	(80,000)
<b>Cash used in financing activities</b>	<b>(582,316)</b>	<b>(398,654)</b>
<b>Net increase (decrease) in cash</b>	<b>4,328</b>	<b>(147,127)</b>
<b>Cash, beginning of period</b>	<b>431,511</b>	<b>578,638</b>
<b>Cash, end of period</b>	<b>\$ 435,839</b>	<b>\$ 431,511</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ -	\$ 3,324

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

# Ignite Funding, LLC

## Notes to Consolidated Financial Statements

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### 1. Summary of Significant Accounting Policies

#### Principal Business Activity

Ignite Funding, LLC, formerly Residential Capital Mortgage Corporation, (the Company) originates, brokers, and services first trust deeds for the acquisition, development, construction and refinancing of commercial and residential projects currently in Nevada, Utah, California, Colorado, Texas, Arizona, Missouri, and Florida.

Prior to April 27, 2011, the Company operated as Residential Capital Mortgage Corporation. On April 27, 2011, Residential Capital Mortgage Corporation changed its name to Ignite Funding and converted its ownership status from that of an S-Corporation to an LLC.

Prior to April 27, 2011, the Company's principal business activity was the origination and sale of mortgages for residential properties in Las Vegas, Nevada and surrounding communities to financial institutions in the secondary markets. This included certain government regulated loans (HUD loans) as well as traditional mortgage loans. A new segment of operations began in March, 2011, focusing on originating, brokering, and servicing first trust deeds for commercial customers, primarily in the construction and development segment. In September 2011 the Company elected to close down the operations of the residential mortgage business and focus solely on its commercial loan brokering and servicing operations.

On April 1, 2013, the Company opened a branch office in Newport Beach, California. The office was opened specifically for the opportunity for expansion and growth of new clients. All support services continue to be maintained in the Nevada office.

#### Principles of Consolidation

In April 2011, 87% of the shares of CM REIT, Inc. were contributed to Ignite Funding. The shares were previously held by two principal shareholders through their ownership in a related entity CM Group, LLC. This contribution gave the Company controlling ownership of CM REIT, Inc. As a result of the controlling position, CM REIT Inc. became a consolidated subsidiary of the Company and a noncontrolling interest of 13% was also recorded to reflect the portion owned outside of the Company.

# Ignite Funding, LLC

## Notes to Consolidated Financial Statements

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### 1. Summary of Significant Accounting Policies (cont.)

#### Principles of Consolidation (cont.)

In March 2012, the owner of the remaining shares of CM REIT, Inc. contributed its 13% ownership to the Company, resulting in 100% ownership in CM REIT, Inc. The noncontrolling portion was reclassified to Members' equity. Also, during March 2012, one of the principal members of the Company elected to redeem and sell all preferred interests owned back to the Company for the aggregate purchase price of \$199,000 resulting in a change of ownership. Payments were made to this principal member during 2012 in accordance with the Promissory Note and were paid in full as of December 31, 2012. Other changes during this same period consisted of the controlling member of the Company electing to transfer ownership to ARJ Trust, resulting in 80% ownership for ARJ Trust and 20% ownership for Tier 12, LLC.

The accompanying consolidated financial statements include the Company's accounts and the accounts of the Company's subsidiary, CM REIT, Inc. During 2012, CM REIT, Inc. contributed its cash by way of dividend to the parent company and all intercompany balances and transactions have been eliminated in consolidation.

#### 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Reclassifications

Certain reclassifications have been made in the presentation of the 2012 financial statements to conform to the 2013 financial statement presentation.

#### Cash

Highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Company places its temporary excess cash with high quality financial institutions.

# Ignite Funding, LLC

## Notes to Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies (cont.)

#### Mortgage Investments

Mortgage investments generally consist of positions taken in individual trust deed investments, are collateralized by real estate, and are generally due within a year. Mortgage investments are intended to be held to maturity, and accordingly are carried at cost, net of any unamortized deferred fees and costs, and any allowance for loan losses. The carrying value of these investments is adjusted for origination discounts/premiums, non-refundable fees and direct costs for originating loans which are amortized into income over the terms of the loans using the effective yield method adjusted for the effects of estimated prepayments. The Company considers a loan to be non-performing when interest and/or principal payments are contractually past due.

#### Property and Equipment

Furniture and equipment are stated at cost. Depreciation is computed on a straight line method over estimated useful lives of 3-7 years for property and equipment listed on Note 3, and the shorter of the life of the asset or the term of the lease for leasehold improvements.

#### Advertising

The Company expenses advertising and related costs as incurred.

#### Income Taxes

At the beginning of 2011, the Company was taxed as an S Corporation which provides that income of the Company is taxed to the shareholders of the Company. On April 27, 2011, in connection with a new line of business, contribution of a subsidiary and a name change, the company became a Limited Liability Company (LLC) which provides that the income of the Company is passed on to be taxed to the members of the LLC. As a result, no income tax liability or expense has been recorded.

#### Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has not elected for any of its assets or liabilities to be accounted for under Codification 825 *Financial Instruments – Fair Value Option* (ASC 825). Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value, which are in accordance with ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), when applicable.



# Ignite Funding, LLC

## Notes to Consolidated Financial Statements

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### 1. Summary of Significant Accounting Policies (cont.) Fair Value (continued)

In accordance with ASC 820, the following fair value hierarchy was applied:

- Level 1 - Assets or liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments or futures contracts.
- Level 2 - Assets and liabilities valued based on observable market data for similar instruments.
- Level 3 - Assets or liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which is internally developed, and considers risk premiums that a market participant would require.

When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and consider assumptions that market participants would use when pricing the asset or liability. In accordance with the standards, when valuing assets and liabilities, the Company applies the lowest level applicable.

# Ignite Funding, LLC

## Notes to Consolidated Financial Statements

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|--|--|
| <b>1. Summary of Significant Accounting Policies (cont.)</b> | <b>Revenue Recognition</b> <p>Commercial loan brokerage fees are recognized as income when trust deeds are brokered and the related loans are funded. Servicing fees are recognized as earned throughout the term of the loan. The Company serviced approximately \$48 million and \$37 million at December 31, 2013 and 2012, respectively, of residential and commercial mortgage loans for private investors. In the event of a non-performing, defaulted or foreclosed loan, past due maturity fees and other charges related to servicing of such commercial loans in default and foreclosure are recorded as revenue when earned as services are provided and deemed collectible. There were no non-performing, defaulted or foreclosed loans as of December 31, 2013.</p> <p>Interest income on performing mortgage investments is recognized over the life of the investment and recorded on the accrual basis. Income recognition is suspended for mortgage investments at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of interest and principal becomes doubtful. Income recognition would be resumed when the mortgage investment becomes contractually current and performance is demonstrated to be resumed.</p> |
| <b>2. Mortgage Investments</b>                               | Mortgage investments represent first lien positions on acquisition, development, construction and refinancing loans. All of the Company's loans had fixed interest rates and provided for payment of interest only with a "balloon" payment of principal payable in full at the end of the loan term. As of December 31, 2013, mortgage investments consisted of six acquisition type loans totaling \$127,105, and one development loan for \$30,000. At December 31, 2012, mortgage investments consisted of six construction type loans totaling \$127,700, and two acquisition loans, one for \$1,275 and the other for \$20,000 with a related party.   |

# Ignite Funding, LLC

## Notes to Consolidated Financial Statements

### 3. Property and Equipment

Property and equipment consisted of the following:

<i>December 31,</i>	2013	2012
Computer equipment	\$ 105,639	\$ 66,360
Office equipment	24,900	26,900
Office furniture	168,188	120,564
Vehicles	41,000	0
Leasehold improvements	7,821	3,504
	<u>347,548</u>	<u>217,328</u>
Less accumulated depreciation	<u>201,219</u>	<u>152,182</u>
	\$ 146,329	\$ 65,146

Depreciation expense was \$51,037 and \$39,293 for 2013 and 2012, respectively.

### 4. Funds Held in Trust

The Company had cash held in trust in the amount of \$534,190 and \$954,059 as of December 31, 2013 and 2012, respectively. These amounts represent funds on deposit from investors for future investment, prepaid interest from borrowers yet to be earned by investors, and overpayments of interest to be returned to the borrowers. Cash held in trust was segregated in separate bank accounts and excluded from the Company's assets and liabilities. Cash held in trust may exceed federally insured limits.

### 5. Retirement Plan

The Company has a 401K retirement plan covering all employees meeting certain eligibility requirements. During 2013 and 2012 the Company made no discretionary contributions to the retirement plan.

# Ignite Funding, LLC

## Notes to Consolidated Financial Statements

6. **Related Party Transactions** During 2013, the Company subleased office space to RMB Real Estate LLC, a related party entity. The agreement is month to month and is cancelable by either party. In the event of default, the Company is required to give notice of default for non-payment, giving the tenants 30 days to cure the default. Prior to 2013, the Company subleased office space to CM Capital Services, LP, a related party, and the agreement was cancelled at the end of 2012. Related party rental income of \$12,000 and \$28,960 were received during 2013 and 2012, respectively, under these agreements.

During 2013 and 2012, the Company had amounts due from RMB Real Estate, LLC, and CM Capital LP, related party entities, for the reimbursement of certain operating expenses in the amount of \$502 and \$8,608, respectively. The amounts were due upon demand and do not bear interest.

During 2013 and 2012, respectively, the Company was the originator and servicer on three notes totaling approximately \$1.5 million and two notes totaling approximately \$1.1 million for RMB Real Estate, LLC, a construction and development entity partially owned by management of the Company and therefore a related party. The Company received \$43,462 and \$93,593 in origination, servicing and extension fees on these notes during 2013 and 2012, respectively. One note, originated in 2011, for \$910,000 was paid off during 2012 and three notes (two of which were originated in 2011) totaling \$1.6 million were paid off during 2013. In addition, the Company held mortgage investments of \$20,000 in projects where RMB Real Estate, LLC was the borrower at December 31, 2012.

During 2013, the Company was the originator and servicer on eight notes totaling approximately \$2.1 million for RMB Live Oak, LLC, a real estate holding company with common management and therefore a related party. The Company received \$91,990 in origination, servicing and extension fees on these notes during 2013. Two notes, totaling \$322,000 were paid off during 2013. In addition, the Company held mortgage investments of \$58,200 in projects where RMB Live Oak, LLC was the borrower at December 31, 2013.

During 2013, the Company was the originator and servicer on five notes totaling \$525,000 for RMB Citrus, LLC, a real estate holding company with common management and therefore a related party. The Company received \$26,474 in origination, servicing and extension fees on these notes during 2013. In addition, the Company held mortgage investments of \$26,000 in projects where RMB Citrus, LLC was the borrower at December 31, 2013.

# Ignite Funding, LLC

## Notes to Consolidated Financial Statements

6. **Related Party Transactions (cont.)** During 2013, the Company was the originator and servicer on three notes totaling \$265,000 for LF Echo Ridge, LLC, a real estate holding company with common management and therefore a related party. The Company received \$9,193 in origination, servicing and extension fees on these notes during 2013. One note, \$135,000 was paid off during 2013.

As of December 31, 2013, Preferred Trust Company, LLC, a related party entity due to common ownership, held investments of approximately \$2.4 million with the Company. Another related party, IIG Fund 1, LLC, with common management held approximately \$1.4 million of investments with the Company. The Company also paid referral fees of \$39,425 to IIG Fund 1, LLC during 2013.

During 2013, the Company paid \$120,000 in consulting fees to a related party, ARJ Management.

7. **Operating Leases** The Company entered into a 5 year non-cancelable operating lease in October 2011, at a new office location in Las Vegas, Nevada. The lease provided for 10 months abatement at 50% of the first 12 months basic rent. The Company subleased 1,100 square feet of their leased space to related parties beginning November 1, 2011, resulting in rent income of \$12,000 and \$28,960 during 2013 and 2012, respectively. The Company entered into an additional 3 year non-cancelable operating lease in April 2013 in Newport Beach, California. The lease provided for 1 month abatement of the first 12 months basic rent. The Company leases the following office equipment; copy machines, postage machine and telephones under non-cancelable operating leases expiring in April 2015, October 2015 and March 2016, respectively. The following is a schedule of future minimum rental payments under the office building leases and office equipment leases at December 31, 2013:

### *Years Ending December 31*

2014	\$ 316,749
2015	311,908
2016	199,832
	<u>\$ 828,489</u>

The office space rent expense was \$277,160 and \$197,920 and total expense for all operating leases were \$289,865 and \$201,877 for the years ended December 31, 2013 and 2012, respectively.

## Ignite Funding, LLC

### Notes to Consolidated Financial Statements

8. **Fair Value** The following table summarizes the carrying values and the estimated values of financial instruments as of December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash	\$ 435,839	\$ 435,839	\$ 431,511	\$ 431,511
Mortgage Investments	\$ 157,105	\$ 157,105	\$ 148,975	\$ 148,975

In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate, estimates of future cash flows and realization of collateral. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The Company takes into account our own credit risk when measuring the fair value of our liabilities.

# Ignite Funding, LLC

## Notes to Consolidated Financial Statements

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8. **Fair Value (cont.)**      The Company used the following methods and assumptions in estimating fair value of each class of financial instrument:

*Cash:* The carrying values of cash and short-term instruments approximate fair value, due to the short-term nature of these items.

*Mortgage investments:* Fair value is measured based upon the fair value of the underlying collateral or property less estimated costs to sell based upon the most recent appraisal available to management or recent transaction prices for similar collateral or property, and as such, the carrying values of these instruments approximates fair value (mortgage investments are classified within level 2 of the hierarchy).

At December 31, 2013 and 2012, the Company did not have any assets or liabilities that are measured at fair value on a recurring basis.

The Company has no assets or liabilities measured using non-observable inputs or level 3 valuation techniques.



# Ignite Funding, LLC

## Notes to Consolidated Financial Statements

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- 9. Commitments and Contingencies** During 2012, the Company paid \$21,420 to settle a lawsuit brought by the former president of the Company.
- During 2013, the Company and a related party were named in a lawsuit. The attorney representing the Company has stated that the litigation is at an early stage and it is difficult to determine what amount of potential liability, if any, rests with the Company at this time.
- The Company may become subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Company.
- 10. Concentrations** The Company has lending relationships with several major borrowers. As of December 31, 2013 and 2012, the Company was servicing \$48.2 million and \$37.2 million, respectively, in outstanding notes. At December 31, 2013, the three largest borrowers were \$20.9 million, \$15 million and \$3.7 million (this amount is with a related party entity). The three largest borrowers at December 31, 2012 were \$15.6 million, \$15.3 million, and \$1.9 million (this amount is with a related party entity). Primarily all of the loans originated and serviced by the Company are in the greater Salt Lake City area at \$19.7 million, the Las Vegas area at \$15.3 million, and the Los Angeles area at \$5.1 million, including surrounding markets.
- Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2013, and 2012, the Company had approximately \$141,000 and \$0 in excess of FDIC insured limits, respectively.
- 11. Regulatory Requirements** The Company is subject to net worth requirements pursuant to the Nevada Revised Statutes 645B.115, which states the mortgage broker must maintain continuously a minimum net worth requirement of \$250,000. As of December 31, 2013 the Company is in compliance with this regulatory requirement.
- 12. Subsequent Events** A note with RMB Real Estate, LLC, a related party, was issued on February 20, 2014 in the amount of \$10,799 and is due in full by April 1, 2014. The note will accrue interest at the annual rate of 10%. A second note was issued on March 18, 2014 for \$25,000 and is due in full by April 15, 2014. This note will also accrue interest at the annual rate of 10%.
- The Company evaluated subsequent events through March 27, 2014, the date the financial statements were available to be issued.