

# Webb Smith Cole & Hickey, PLC

## Certified Public Accountants

### Independent Auditor's Report

Members  
Financial Service Centers of Ohio, LLC  
Texarkana, Texas

We have audited the financial statements of Financial Service Centers and Affiliates (the Company) which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, members' 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 the 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 of 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 Financial Service Centers of Ohio, LLC as of December 31, 2017 and 2016, 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.

*Webb Smith Cole & Hickey, PLC*

Certified Public Accountants

Texarkana, Arkansas  
June 29, 2018

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**Webb Smith Cole & Hickey, PLC**  
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**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements of Financial Service Centers of Ohio, LLC as a whole. The Schedule of Percentages of the Statement of Income is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Webb Smith Cole & Hickey, PLC*

Certified Public Accountants

Texarkana, Arkansas  
June 29, 2018

## FINANCIAL SERVICE CENTERS OF OHIO, LLC

## Schedule of Percentages for Statements of Income

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Fee Income	100.00%	100.00%
Operating expenses		
Salaries and benefits	26.76%	28.05%
Depreciation	1.78%	1.24%
Computer	2.98%	2.62%
Insurance	1.03%	1.15%
Permits and Fees	2.10%	2.76%
Office Supplies	0.80%	0.63%
Professional Fees	0.45%	1.30%
Rent	9.00%	7.18%
Utilities	2.39%	2.38%
Travel	0.18%	0.20%
Corporate Overhead	10.16%	15.13%
Advertising	2.50%	4.25%
Bad debt - net of recovery	30.63%	25.72%
Other operating expenses	<u>1.16%</u>	<u>1.35%</u>
Total operating expenses	<u>91.91%</u>	<u>93.95%</u>
Income from operations	<u>8.09%</u>	<u>6.05%</u>
Other income (expense)		
Interest expense	-1.47%	-0.72%
Gain (loss) on disposal of fixed assets	0.00%	0.13%
Interest income	<u>0.01%</u>	<u>0.00%</u>
Total other income (expense)	<u>-1.46%</u>	<u>-0.59%</u>
Net Income	<u>6.64%</u>	<u>5.47%</u>

Loan Range	Unsecured Loan Count#	Unsecured Loan Total\$	Unsecured APR%	Secured Loan Count#	Secured Loan Total\$	Secured APR%
_\$0-100	177	\$ 15,764.57	380.99%	120	\$ 10,176.35	352.19%
_\$101-0200	757	\$ 134,669.56	364.07%	376	\$ 61,320.67	340.98%
_\$201-0300	877	\$ 238,764.98	362.28%	1,139	\$ 317,143.21	341.51%
_\$301-0400	878	\$ 321,347.18	367.67%	1,165	\$ 421,034.78	337.88%
_\$401-0500	1,015	\$ 471,517.96	367.04%	1,349	\$ 625,987.00	334.45%
_\$501-0600	1,397	\$ 802,185.38	369.85%	1,084	\$ 607,448.78	332.75%
_\$601-0700	575	\$ 377,961.45	364.38%	859	\$ 568,407.91	332.00%
_\$701-0800	571	\$ 432,942.75	366.41%	642	\$ 490,292.07	331.77%
_\$801-0900	608	\$ 521,765.98	370.02%	456	\$ 390,583.92	329.03%
_\$901-1000	2,035	\$ 1,983,304.84	370.69%	674	\$ 657,233.04	312.97%
_\$1001-2000	-	-	-	2,060	\$ 2,943,975.12	283.97%
_\$2001-3000	-	-	-	648	\$ 1,599,141.76	221.65%
_\$3001-4000	-	-	-	218	\$ 756,864.79	191.57%
_\$4001-5000	-	-	-	110	\$ 510,049.97	189.70%
_\$5001-6000	-	-	-	47	\$ 257,763.11	159.54%
_\$6001-7000	-	-	-	43	\$ 282,881.85	151.94%
_\$7001-8000	-	-	-	23	\$ 174,904.14	153.95%
_\$8001-9000	-	-	-	16	\$ 137,484.78	159.34%
_\$9001-10000	-	-	-	18	\$ 176,465.46	149.07%
<b>Totals</b>	<b>8,890</b>	<b>\$ 5,300,224.65</b>		<b>11,047</b>	<b>\$10,989,158.71</b>	

**Grand Total** \$16,289,383.36  
**Current Weighted APR** 301.89%

Loan Range	Eligible Sub H.B. 123	Ineligible Sub H.B. 123	Current APR	Highest Tier Sub HB 123 APR	Revenue Reduction
_\$0-100	25,941		369.69%	206.40%	-44.17%
_\$101-0200	195,990		356.85%	206.40%	-42.16%
_\$201-0300	555,908		350.43%	206.40%	-41.10%
_\$301-0400	742,382		350.77%	164.78%	-53.02%
_\$401-0500	1,097,505		348.45%	145.03%	-58.38%
_\$501-0600	1,409,634		353.86%	127.46%	-63.98%
_\$601-0700	946,369		344.93%	114.75%	-66.73%
_\$701-0800	923,235		348.01%	105.19%	-69.77%
_\$801-0900	912,350		352.47%	97.78%	-72.26%
_\$901-1000	2,640,538		356.32%	91.82%	-74.23%
_\$1001-2000		2,943,975	283.97%		
_\$2001-3000		1,599,142	221.65%		
_\$3001-4000		756,865	191.57%		
_\$4001-5000		510,050	189.70%		
_\$5001-6000		257,763	159.54%		
_\$6001-7000		282,882	151.94%		
_\$7001-8000		174,904	153.95%		
_\$8001-9000		137,485	159.34%		
_\$9001-10000		176,465	149.07%		
<b>Totals</b>	<b>9,449,852</b>	<b>6,839,531</b>			

1. Current Receivables
2. Current Weighted APR. As a matter of reference, Sub H.B. 123 would produce a weighted APR of 116.42%.

Ineligible Rate 41.99%  
 Recapture Rate 35.00%  
 Sub H.B. 123 Rec. 11,843,688.22

Weight Rev Reduce 61.435%  
 Rec. Reduce -27.292%  
 Sub HB 123 Rev Reduce -71.960%

3. 58% of Current Eligible under Sub HB 123 due to loan size > \$1,000
4. Estimated to "Recapture"

5. Sub HB 123 produces 27.29% reduction in Receivables.
6. Produces 61.43% reduction in Liquidity Rate. When combining impact of reduced receivables and drastic cut to fees, overall reduction to revenue is approx 72%

	<u>Current</u>	<u>Sub H.B. 123</u>
<u>Operating Revenues</u>		
Fee Income	100.00%	100.00%
Receivable Reduction	0.00%	-27.29%
Net Recievable Impact	100.00%	72.71%
Liquidity Rate Reduction	0.00%	-44.67%
Net Fee Income (before Loan Losses)	100.00%	28.04%
Loss Provision	30.63%	30.63% *
<b>Net Fee Income</b>	<b>69.37%</b>	<b>19.45%</b>
<u>Operating Expenses</u>		
Personnel	26.76%	26.76%
Rent & Utilities	11.39%	11.39%
Other Operating	23.13%	23.13%
Total Operating	61.28%	61.28%
Net Operating Income	8.09%	-41.83%
Non Operating Expenses	1.46%	1.46%
<b>Net Income</b>	<b>6.64%</b>	<b>-43.29%</b>

Notes:

\* Loans Losses, as a percentage of revenue, will most likely be much higher under Sub H.B. 123 due to the precipitous reduction in yield. Put succinctly, the "cost" of a loan loss will remain constant in the numerator, yet the revenue in denominator will be over 70% less than pre Sub HB123. However, for this illustration the loss rate was kept constant to demonstrate the onerous impact of Sub H.B. 123 even before accounting for actual loan losses.