

Expert Wizardry in Presenting and Defending Income Adjustments for Support: Hogwarts and All



ACFLS 20th Annual Spring Seminar
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Robert Blevans Ronald Granberg

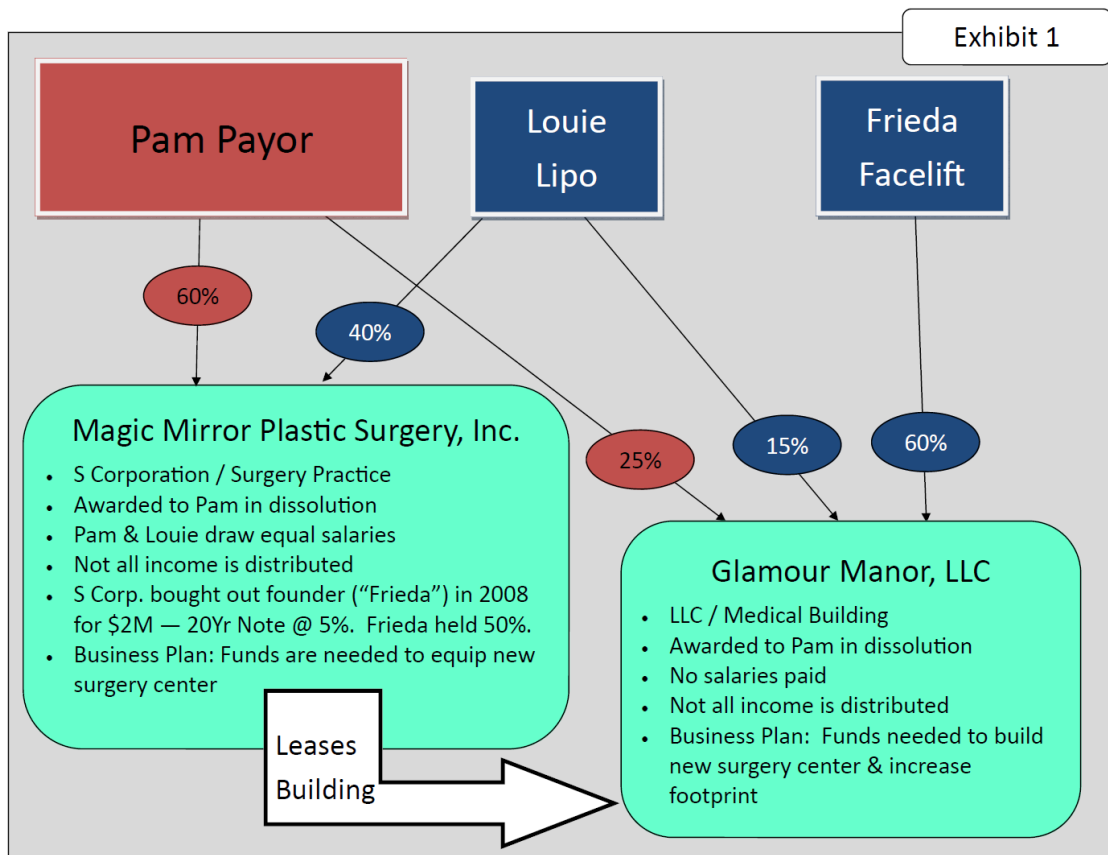


Exhibit 2-ANotes

If on accrual basis, equivalent to
an Income Statement

Magic Mirror Plastic Surgery, Inc.

2011 Statement of Revenues & Expenses -- Income Tax Basis		
1	Revenues	\$ 3,600,000
2	Expenses:	
3	Pam's salary	400,000
4	Louie's salary	400,000
5	Interest, rent, operating expenses	1,800,000
6	Depreciation	200,000
7	Total Expense	<u>2,800,000</u>
8	Excess of Revenues over Expenses	<u>\$ 800,000</u>

Deprec. = \$50k plus
Section 179 = \$150k =

= line 1 less line 7

2011 Statement of Retained Earnings -- Income Tax Basis		
9	Beginning	\$ 400,000
10	Excess of Revenues over Expenses	800,000
11	Sub S Distribution to Pam	(180,000)
12	Sub S Distribution to Louie	(120,000)
13	Ending retained earnings	<u>\$ 900,000</u>

= line 8

= line 28

Exhibit 2-B

Magic Mirror Plastic Surgery, Inc.

Statement of Assets, Liabilities & Stockholders' Equity -- Income Tax Basis

*If on accrual basis, equivalent to
a Balance Sheet*

		<u>2010</u>	<u>2011</u>
14	Assets:		
15	Cash	\$ 280,000	\$ 280,000
16	Supplies	200,000	250,000
17	Equipment	925,000	1,075,000
18	Accumulated depreciation	(150,000)	(350,000)
19	Goodwill	<u>1,720,000</u>	<u>1,720,000</u>
20	Total Assets	<u>\$ 2,975,000</u>	<u>\$ 2,975,000</u>
21			
22	Liabilities:		
	Line of credit	\$ 531,000	\$ 150,000
23	Loan: Equipment	150,000	100,000
24	Loan: Frieda	<u>1,794,000</u>	<u>1,725,000</u>
25	Total Liabilities	2,475,000	1,975,000
26	Stockholders' Equity:		
27	Common stock	100,000	100,000
28	Retained earnings	<u>400,000</u>	<u>900,000</u>
29	Total Stockholders' Equity	<u>500,000</u>	<u>1,000,000</u>

See line 6 for Section 179 note

*line 23: \$50,000 principal repaid
2011*

*line 24: \$69,000 principal repaid
2011*

= line 13



Form 1120S		U.S. Income Tax Return for an S Corporation		OMB No. 1545-0130	
Department of the Treasury Internal Revenue Service		<p>▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation. ▶ See separate instructions.</p>		<p>2011</p>	
For calendar year 2011 or tax year beginning , 2011, ending , 20					
A S election effective date 1/1/2000		TYPE OR PRINT Name MAGIC MIRROR PLASTIC SURGERY, INC. Number, street, and room or suite no. If a P.O. box, see instructions. 1234 ANY STREET City or town, state, and ZIP code ANY TOWN, CA 91711		D Employer identification number 98-7654321	
B Business activity code number (see instructions) 621111				E Date incorporated 1/1/2000	
C Check if Sch. M-3 attached <input type="checkbox"/>				F Total assets (see instructions) \$ 2,975,000	
G Is the corporation electing to be an S corporation beginning with this tax year? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," attach Form 2553 if not already filed					
H Check if: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return (5) <input type="checkbox"/> S election termination or revocation					
I Enter the number of shareholders who were shareholders during any part of the tax year ▶ 2					
Caution. Include only trade or business income and expenses on lines 1a through 21. See the instructions for more information.					
Income	1a	Merchant card and third-party payments. For 2011, enter -0-	2,000,000		
	1b	Gross receipts or sales not reported on line 1a (see instructions)	1,600,000		
	1c	Total. Add lines 1a and 1b.	3,600,000		
	1d	Returns and allowances plus any other adjustments (see instructions)	0		
	1e	Subtract line 1d from line 1c	3,600,000		
	2	Cost of goods sold (attach Form 1125-A)			
Deductions (see instructions for limitations)	3	Gross profit. Subtract line 2 from line 1e			
	4	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			
	5	Other income (loss) (see instructions—attach statement)			
	6	Total income (loss). Add lines 3 through 5	3,600,000		
	7	Compensation of officers	800,000		
	8	Salaries and wages (less employment credits)	1,260,300		
	9	Repairs and maintenance			
	10	Bad debts			
	11	Rents	450,000		
	12	Taxes and licenses			
	13	Interest	89,700		
	14	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	50,000		
	15	Depletion (Do not deduct oil and gas depletion.)			
	16	Advertising			
	17	Pension, profit-sharing, etc., plans			
18	Employee benefit programs				
19	Other deductions (attach statement)				
20	Total deductions. Add lines 7 through 19	2,650,000			
21	Ordinary business income (loss). Subtract line 20 from line 6	950,000			

Exhibit 3-A

Form 1120S (2011) Page **2**

Schedule B Other Information (see instructions)

	Yes	No
1 Check accounting method: a <input checked="" type="checkbox"/> Cash b <input type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ▶		
2 See the instructions and enter the: a Business activity ▶ <u>HEALTHCARE</u> b Product or service ▶ <u>PLASTIC SURGERY</u>		
3 At the end of the tax year, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) If "Yes," attach a statement showing: (a) name and employer identification number (EIN), (b) percentage owned, and (c) if 100% owned, was a qualified subchapter S subsidiary election made?		✓
4 Has this corporation filed, or is it required to file, Form 8918 , Material Advisor Disclosure Statement, to provide information on any reportable transaction?		✓
5 Check this box if the corporation issued publicly offered debt instruments with original issue discount ▶ <input type="checkbox"/> If checked, the corporation may have to file Form 8281 , Information Return for Publicly Offered Original Issue Discount Instruments.		
6 If the corporation: (a) was a C corporation before it elected to be an S corporation or the corporation acquired an asset with a basis determined by reference to the basis of the asset (or the basis of any other property) in the hands of a C corporation and (b) has net unrealized built-in gain in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years (see instructions) ▶ \$		
7 Enter the accumulated earnings and profits of the corporation at the end of the tax year. \$		
8 Are the corporation's total receipts (see instructions) for the tax year and its total assets at the end of the tax year less than \$250,000? If "Yes," the corporation is not required to complete Schedules L and M-1		
9 During the tax year, was a qualified subchapter S subsidiary election terminated or revoked? If "Yes," see instructions		
10a Did the corporation make any payments in 2011 that would require it to file Form(s) 1099 (see instructions)?		✓
b If "Yes," did the corporation file or will it file all required Forms 1099?		✓

Schedule K Shareholders' Pro Rata Share Items

			Total amount
Income (Loss)	1 Ordinary business income (loss) (page 1, line 21)	1	950,000
	2 Net rental real estate income (loss) (attach Form 8825)	2	
	3a Other gross rental income (loss)	3a	
	b Expenses from other rental activities (attach statement)	3b	
	c Other net rental income (loss). Subtract line 3b from line 3a	3c	
	4 Interest income	4	
	5 Dividends: a Ordinary dividends	5a	
	b Qualified dividends	5b	
	6 Royalties	6	
	7 Net short-term capital gain (loss) (attach Schedule D (Form 1120S))	7	
8a Net long-term capital gain (loss) (attach Schedule D (Form 1120S))	8a		
b Collectibles (28%) gain (loss)	8b		
c Unrecaptured section 1250 gain (attach statement)	8c		
9 Net section 1231 gain (loss) (attach Form 4797)	9		
10 Other income (loss) (see instructions) Type ▶	10		

Form **1120S** (2011)

Exhibit 3-B

Form 1120S (2011)		Page 3	
Shareholders' Pro Rata Share Items (continued)			
Deductions	11	Section 179 deduction (attach Form 4562)	11 150,000
	12a	Contributions	12a
	b	Investment interest expense	12b
	c	Section 59(e)(2) expenditures (1) Type (2) Amount	12c(2)
Credits	d	Other deductions (see instructions) Type	12d
	13a	Low-income housing credit (section 42(i)(5))	13a
	b	Low-income housing credit (other)	13b
	c	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468) Type	13c
	d	Other rental real estate credits (see instructions) Type	13d
	e	Other rental credits (see instructions) Type	13e
	f	Alcohol and cellulosic biofuel fuels credit (attach Form 6478) Type	13f
Foreign Transactions	g	Other credits (see instructions) Type	13g
	14a	Name of country or U.S. possession	14a
	b	Gross income from all sources	14b
	c	Gross income sourced at shareholder level	14c
	d	Foreign gross income sourced at corporate level	14d
	e	Passive category	14e
	f	General category	14f
	g	Other (attach statement)	14g
	h	Deductions allocated and apportioned a	14h
	i	Interest expense	14i
	j	Other	14j
	k	Deductions allocated and apportioned a	14k
	l	Passive category	14l
	m	General category	14m
Alternative Minimum Tax (AMT) Items	15a	Other (attach statement)	15a
	b	Total foreign taxes (check one): <input type="checkbox"/> F <input type="checkbox"/> R	15b
	c	Reduction in taxes available for credit (attach statement)	15c
	d	Other foreign tax information (attach statement)	15d
	e	Post-1986 depreciation adjustment	15e
	f	Adjusted gain or loss	15f
Items Affecting Shareholder Basis	16a	Depletion (other than oil and gas)	16a
	b	Oil, gas, and geothermal properties—gross income	16b
	c	Oil, gas, and geothermal properties—deductions	16c
	d	Other AMT items (attach statement)	16d 300,000
	e	Tax-exempt interest income	16e
Other Information	17a	Other tax-exempt income	17a
	b	Nondeductible expenses	17b
	c	Distributions (attach statement if required) (see instructions)	17c
	d	Repayment of loans from shareholders	17d
Reconciliation	18	Income/loss reconciliation. Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 14l	18 800,000

Exhibit 3-C

This page is more important than the first page of Form 1120S.

o Sec. 179 at line 11

o Distributions at line 16d

o Line 18 should agree to the financial statements (not page one of Form 1120S)

Form 1120S (2011) Page **4**

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1 Cash			280,000		280,000
2a Trade notes and accounts receivable					
b Less allowance for bad debts	()			()	
3 Inventories					
4 U.S. government obligations					
5 Tax-exempt securities (see instructions)					
6 Other current assets (attach statement)					
7 Loans to shareholders					
8 Mortgage and real estate loans					
9 Other investments (attach statement)					
10a Buildings and other depreciable assets		925,000		1,075,000	
b Less accumulated depreciation	(150,000)		775,000	(350,000)	725,000
11a Depletable assets					
b Less accumulated depletion	()			()	
12 Land (net of any amortization)					
13a Intangible assets (amortizable only)					
b Less accumulated amortization	()			()	
14 Other assets (attach statement)			1,920,000		1,970,000
15 Total assets			2,975,000		2,975,000
Liabilities and Shareholders' Equity					
16 Accounts payable					
17 Mortgages, notes, bonds payable in less than 1 year			381,000		0
18 Other current liabilities (attach statement)					
19 Loans from shareholders					
20 Mortgages, notes, bonds payable in 1 year or more			2,094,000		1,975,000
21 Other liabilities (attach statement)					
22 Capital stock			100,000		100,000
23 Additional paid-in capital					
24 Retained earnings			400,000		900,000
25 Adjustments to shareholders' equity (attach statement)					
26 Less cost of treasury stock	()			()	
27 Total liabilities and shareholders' equity			2,975,000		2,975,000

Exhibit 3-D

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Exhibit 3-D

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return
Note. Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more—see instructions.

1	Net income (loss) per books	900,000	5	Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize)		a	Tax-exempt interest \$	
3	Expenses recorded on Schedule K, lines 1 through 14i (itemize):		6	Deductions included on Schedule K, lines 1 through 12 and 14i, not charged against book income this year (itemize):	
a	Depreciation \$		a	Depreciation \$	
b	Travel and entertainment \$		7	Add lines 5 and 6	
4	Add lines 1 through 3		8	Income (loss) (Schedule K, line 18), Line 4 less line 7	900,000

Schedule M-2 Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed (see instructions)

	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Shareholders' undistributed taxable income previously taxed
1 Balance at beginning of tax year	400,000		
2 Ordinary income from page 1, line 21	950,000		
3 Other additions			
4 Loss from page 1, line 21	()		
5 Other reductions	150,000		
6 Combine lines 1 through 5	1,200,000		
7 Distributions other than dividend distributions	300,000		
8 Balance at end of tax year. Subtract line 7 from line 6	900,000	0	0

Form 1120S (2011)

Bottom of Page

The Sec. 179 is not deducted from ordinary income on line 2. It is deducted by shareholder. See line 11 of Schedule K-1.

Line 2 950k less line 5 150k = 800k x 60% to Pam = 480k

Form 4562		Depreciation and Amortization (Including Information on Listed Property)		OMB No. 1545-0047	201 Attachment Sequence No. 179
Department of the Treasury Internal Revenue Service (99)		▶ See separate instructions. ▶ Attach to your tax return.			
Name(s) shown on return MAGIC MIRROR PLASTIC SURGERY, INC.		Business or activity to which this form relates HEALTHCARE		Identifying number 98-7654321	
Part I Election To Expense Certain Property Under Section 179					
Note: If you have any listed property, complete Part V before you complete Part I.					
1 Maximum amount (see instructions)		1			
2 Total cost of section 179 property placed in service (see instructions)		2		150,000	
3 Threshold cost of section 179 property before reduction in limitation (see instructions)		3			
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-		4			
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions		5			
6 (a) Description of property		(b) Cost (business use only)		(c) Elected cost	
7 Listed property. Enter the amount from line 29		7			
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7		8			
9 Tentative deduction. Enter the smaller of line 5 or line 8		9			
10 Carryover of disallowed deduction from line 13 of your 2010 Form 4562		10			
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)		11			
12 Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11		12			
13 Carryover of disallowed deduction to 2012. Add lines 9 and 10, less line 12		13			
Note: Do not use Part II or Part III below for listed property. Instead, use Part V.					
Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)					
14 Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)		14			
15 Property subject to section 168(f)(1) election		15			
16 Other depreciation (including ACRS)		16			
Part III MACRS Depreciation (Do not include listed property.) (See instructions.)					
Section A					
17 MACRS deductions for assets placed in service in tax years beginning before 2011		17		50,000	
18 If you are electing to group any assets placed in service during the tax year into one or more general					

Exhibit 3-E

Magic Mirror Plastic Surgery, Inc.

Exhibit 3-F

Depreciation

	<u>Date Acq.</u>	<u>Cost</u>	<u>Section 179</u> <u>Current</u> <u>Year</u>	<u>Basis to</u> <u>Depreciate</u>	<u>Method</u>	<u>Life</u>	<u>Prior</u> <u>Years</u>	<u>Current</u> <u>Year</u>
Medical equipment	6/30/2011	150,000	150,000	-	-	-	-	-
Medical equipment	12/20/2008	250,000	-	250,000	S/L	5	100,000	50,000
All Other	not disclosed	675,000		not disclosed			50,000	-
Total		<u>1,075,000</u>	<u>150,000</u>				<u>150,000</u>	<u>50,000</u>

Statement 1

Schedule K-1

(Form 1120S)

Department of the Treasury

Internal Revenue Service

2011

For calendar year 2011, or tax year beginning _____, 2011 ending _____, 20____

Shareholder's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Corporation

A Corporation's employer identification number

98-7654321

B Corporation's name, address, city, state, and ZIP code

MAGIC MIRROR PLASTIC SURGERY, INC.

1234 ANY STREET

ANY TOWN, CA 91711

C IRS Center where corporation filed return

FRESNO

Part II Information About the Shareholder

D Shareholder's identifying number

123-45-6789

E Shareholder's name, address, city, state, and ZIP code

PAM PAYOR

3456 ANOTHER STREET

ANOTHER TOWN, CA 91711

F Shareholder's percentage of stock ownership for tax year _____ 60 %

For IRS Use Only

The "net" pass-thru income for Pam is:

Line 1: Ordinary Business Inc. 570k

less:

Line 11: Sec. 179 Deduction (90k)

Effective pass-thru income 480k

Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items

1 Ordinary business income (loss)

570,000

2 Net rental real estate income (loss)

3 Other net rental income (loss)

4 Interest income

5a Ordinary dividends

5b Qualified dividends

6 Royalties

7 Net short-term capital gain (loss)

8a Net long-term capital gain (loss)

8b Collectibles (28%) gain (loss)

8c Unrecaptured section 1250 gain

9 Net section 1231 gain (loss)

10 Other income (loss)

11 Section 179 deduction

90,000

12 Other deductions

13 Credits

14 Foreign transactions

15 Alternative minimum tax (AMT) items

16 Items affecting shareholder basis

D 180,000

17

Line 21 of form 1120S = \$950,000 x 60% ownership = \$570,000

See next page for codes

Section 179 deduction equals \$150,000 x 60% = \$90,000

The Statement of Retained Earnings shows this amount as the "Sub S Distribution to Pam"

Exhibit 4-A

Schedule K-1 (Form 1120S) 2011

Page **2**

This list identifies the codes used on Schedule K-1 for all shareholders and provides summarized reporting information for shareholders who file Form 1040. For detailed reporting and filing information, see the separate Shareholder's Instructions for Schedule K-1 and the instructions for your income tax return.

	Code	Report on
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:		
Passive loss	Report on	
Passive income	See the Shareholder's Instructions	See the Shareholder's Instructions
Nonpassive loss	Schedule E, line 28, column (g)	See the Shareholder's Instructions
Nonpassive income	Schedule E, line 28, column (h)	Form 1040, line 62
Net loss	Schedule E, line 28, column (i)	See the Shareholder's Instructions
2. Net rental real estate income (loss)	See the Shareholder's Instructions	
3. Other net rental income (loss)		
Net income	Schedule E, line 28, column (g)	
Net loss	See the Shareholder's Instructions	
4. Interest income	Form 1040, line 8a	
5a. Ordinary dividends	Form 1040, line 9a	
5b. Qualified dividends	Form 1040, line 9b	
6. Royalties	Schedule E, line 3b	
7. Net short-term capital gain (loss)	Schedule D, line 5	
8a. Net long-term capital gain (loss)	Schedule D, line 12	
8b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)	
8c. Unrecaptured section 1250 gain	See the Shareholder's Instructions	
9. Net section 1231 gain (loss)	See the Shareholder's Instructions	
10. Other income (loss)		
Code		
A Other portfolio income (loss)	See the Shareholder's Instructions	
B Involuntary conversions	See the Shareholder's Instructions	
C Sec. 1256 contracts & straddles	Form 6781, line 1	
D Mining exploration costs recapture	See Pub. 535	
E Other income (loss)	See the Shareholder's Instructions	
11. Section 179 deduction	See the Shareholder's Instructions	
12. Other deductions		
A Cash contributions (50%)	See the Shareholder's Instructions	
B Cash contributions (30%)		
C Noncash contributions (50%)		
D Noncash contributions (30%)		
E Capital gain property to a 50% organization (30%)		
F Capital gain property (20%)		
G Contributions (100%)		
H Investment interest expense	Form 4952, line 1	
I Deductions—royalty income	Schedule E, line 19	
J Section 59(e)(2) expenditures	See the Shareholder's Instructions	
K Deductions—portfolio (2% floor)	Schedule A, line 23	
L Deductions—portfolio (other)	Schedule A, line 28	
M Preproductive period expenses	See the Shareholder's Instructions	
14. Foreign transactions		
A Name of country or U.S. possession	Form 1116, Part I	
B Gross income from all sources		
C Gross income sourced at shareholder level		
Foreign gross income sourced at corporate level		
D Passive category	Form 1116, Part I	
E General category		
F Other		
Deductions allocated and apportioned at shareholder level		
G Interest expense	Form 1116, Part I	
H Other	Form 1116, Part I	
Deductions allocated and apportioned at corporate level to foreign source income		
I Passive category	Form 1116, Part I	
J General category		
K Other		
Other information		
L Total foreign taxes paid	Form 1116, Part II	
M Total foreign taxes accrued	Form 1116, Part II	
N Reduction in taxes available for credit	Form 1116, line 12	
O Foreign trading gross receipts	Form 8873	
P Extraterritorial income exclusion	Form 8873	
Q Other foreign transactions	See the Shareholder's Instructions	
15. Alternative minimum tax (AMT) items		
A Post-1986 depreciation adjustment	See the Shareholder's Instructions and the instructions for Form 6251	
B Adjusted gain or loss		
C Depletion (other than oil & gas)		
D Oil, gas, & geothermal—gross income		
E Oil, gas, & geothermal—deductions		
F Other AMT items		
16. Items affecting shareholder basis		
A Tax-exempt interest income	Form 1040, line 8b	
B Other tax-exempt income		
C Nondeductible expenses	See the Shareholder's Instructions	
D Distributions		
E Repayment of loans from shareholders		

Exhibit 4-B

SECURED PROMISSORY NOTE

For value received, **Magic Mirror Plastic Surgery, Inc. (“Payor”)** promises to pay to **Acme Medical Equipment (“Payee”)**, or order, at 333 Lucre Lane, Green Gulch, CA 98765 or at such other place as Payee shall from time to time designate, the principal sum of Four Hundred Thousand Dollars and No Cents (\$250,000.00), with no interest. **Principal shall be paid at the rate of Fifty Thousand Dollars and No Cents (\$50,000.00) per year, with the first payment to be made on January 20, 2011** and subsequent payments to be made on the first day of each year until all principal has been paid in full.

Should default be made in the payment of any installment when due, all principal shall become immediately due and payable at the option of the holder of this note.

In the event that Payee employs legal counsel, or institutes legal action, to enforce payments of this note, Payor shall pay reasonable attorneys fees incurred by Payee.

This note is **secured by a Security Agreement and UCC-1 Financing Statement** bearing even date herewith. In the event that Payor (trustor under said deed of trust) sells, conveys or encumbers the property which is the subject matter of said deed of trust, or any interest therein, Payee shall have the right, at Payee's option, to declare this note immediately due and payable without further notice to Payor.

12/20/2008 _____

Date executed

Pamela Payor _____

Pamela Payor, President

Magic Mirror Plastic Surgery, Inc.

Exhibit 5-A

14

14

Magic Mirror Plastic Surgery, Inc.
Loan Amortization Schedule -- Equipment

Exhibit 5-B

	A	B	C = B * 0%	D	F = B+D+E	
		<u>Beginning</u>	<u>Interest @</u>	<u>Principal</u>	<u>Ending Balance</u>	
	<u>Year</u>	<u>Balance</u>	<u>0%</u>	<u>Payments</u>		
				<u>Required</u>		
1	2008				250,000	
2	2009	250,000	-	(50,000)	200,000	
3	2010	200,000	-	(50,000)	150,000	<< agrees to 2010 liabilities
4	2011	150,000	-	(50,000)	100,000	<< agrees to 2011 liabilities
5	2012	100,000	-	(50,000)	50,000	
6	2013	50,000	-	(50,000)	-	

Exhibit 6

Magic Mirror Plastic Surgery, Inc.
Loan Amortization Schedule -- Equipment

	A	B	C = B * 0%	D	E	F = B+D+E	
	Year	Beginning Balance	Interest @ 0%	Principal Payments		Ending Balance	
				Required	Optional		
1	2008					250,000	
2	2009	250,000	-	(50,000)	-	200,000	
3	2010	200,000	-	(50,000)	-	150,000	<< agrees to 2010 liabilities
4	2011	150,000	-	(50,000)	-	100,000	<< agrees to 2011 liabilities
5	2012	100,000	-	(50,000)	-	50,000	
6	2013	50,000	-	(50,000)	-	-	

SECURITY AGREEMENT

This Security Agreement is made by **Magic Mirror Plastic Surgery, Inc. ("Debtor")** and **Acme Medical Equipment ("Secured Party")**.

SECURITY INTEREST: The purpose of this Security Agreement is to secure the payment of the indebtedness of the Debtor in that certain Promissory Note signed by Debtor of even date herewith ("the Agreement").

COLLATERAL: The collateral subject to this Security Agreement shall be: TushTucker X552; Crow's Feet Canceller (dual action model); Nature's Lift, Model 911; and High-Speed Re-facer #88.

DEFAULT: Non-performance or non-payment when due of Debtor's obligations described in the Agreement shall constitute a default under this Agreement.

RIGHTS OF SECURED PARTY: Debtor hereby nominates and appoints Secured Party as attorney-in-fact to do all acts and things which Secured Party may deem necessary or advisable to preserve, maintain, protect and perfect the Collateral or Secured Party's security interest therein. In order to protect and preserve the Collateral, Debtor authorizes Secured Party to enter such premises where said Collateral is located and to use for such purposes any equipment or facilities of Debtor. Debtor authorizes Secured Party to collect and receive proceeds and products of Collateral and this Agreement shall be deemed as an assignment thereof the Secured Party.

ADDITIONAL RIGHT UPON DEFAULT: Upon the occurrence of any default described above, Secured Party shall have any or all of the following rights and remedies: (a) All rights and remedies of a Secured Party under the Uniform Commercial Code including the right to a foreclosure sale, and (b) The right to immediate possession of the collateral and to immediate re-entry on any premises where the collateral is located.

SUCCESSORS: This Agreement shall be binding upon and inure to the benefit of the successors, assigns, executors, administrators, heirs and devisees of the Secured Party and the Debtor.

12/20/08

Date executed

Pamela Payor

Pamela Payor, President
Magic Mirror Plastic Surgery, Inc.

Exhibit 7

Additional Right Upon Default: Upon the occurrence of any default described above, Secured Party shall have any and all of the following rights and remedies: **...including the right to a foreclosure sale...**

Exhibit 8

UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER [optional]

Acme In-House, Esq. (213-213-2132)

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

Acme In-House, Esq.
123 Security Street
Green Gulch, CA 98765

Print

Reset

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME

Magic Mirror Plastic Surgery, Inc.

OR

1b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME

SUFFIX

1c. MAILING ADDRESS

CITY

STATE

POSTAL CODE

COUNTRY

1234 Any Street

Any Town

CA

91711

USA

1d. **SEE INSTRUCTIONS**ADD'L INFO RE:
ORGANIZATION
DEBTOR1e. TYPE OF ORGANIZATION
Sub-S Corp1f. JURISDICTION OF ORGANIZATION
CA1g. ORGANIZATIONAL ID #, if any
98-765432☐ NONE2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME

OR

2b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME

SUFFIX

2c. MAILING ADDRESS

CITY

STATE

POSTAL CODE

COUNTRY

2d. **SEE INSTRUCTIONS**ADD'L INFO RE:
ORGANIZATION
DEBTOR

2e. TYPE OF ORGANIZATION

2f. JURISDICTION OF ORGANIZATION

2g. ORGANIZATIONAL ID #, if any

☐ NONE3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR SIP) - insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME

OR

3b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME

SUFFIX

3c. MAILING ADDRESS

CITY

STATE

POSTAL CODE

COUNTRY

333 Lucre Lane

Green Gulch

CA

98765

USA

4. This FINANCING STATEMENT covers the following collateral:

Tush Tucker X552
Crow's Feet Cancellor (dual action model)
Nature's Lift, Model 911
High-Speed Re-facer #88

Exhibit 9

Magic Mirror Plastic Surgery, Inc.

Depreciation

	<u>Date Acq.</u>	<u>Cost</u>	<u>Section 179</u> <u>Current</u> <u>Year</u>	<u>Basis to</u> <u>Depreciate</u>	<u>Method</u>	<u>Life</u>	<u>Prior Year</u>	<u>Current</u> <u>Year</u>
1 Medical equipment	6/30/2011	150,000	150,000	-	-	-	-	-
2 Medical equipment	12/31/2008	250,000	-	250,000	S/L	5	100,000	50,000
3 All Other	not disclosed	525,000		not disclosed			50,000	-
4 Total		925,000	150,000				150,000	50,000

Section 179 is not subtracted in arriving at "ordinary business income" in the S Corporation return. Rather this amount is shown on a separate line in Schedule K-1.

Statement 1

Unlike Section 179, the deduction for current year depreciation is claimed in arriving at ordinary business income on page one of Form 1120S.

**SPRING SYMPOSIUM
OF THE AMERICAN ACADEMY
OF PLASTIC SURGEONS**

Exhibit 10

Silverado Resort, Napa, California

**Report of Office Management Section on
Useful Life of Equipment Items**

The Office Management Section of the American Academy of Plastic Surgeons presents these results of its comprehensive three-year study on suggested best practices for equipment replacement.

Equipment Item:	Ave. Useful Life:
TushTucker X552	5 years
Crow's Feet Canceller (dual action model)	4 years
Nature's Lift, Model 911	5 years
High-Speed Re-facer #88	6 years

The Office Management Section suggests AAPS Fellows budget for replacement of the following equipment items in the following average time periods:

Equipment Item:	Ave. Useful Life:
TushTucker X552	5 years
Crow's Feet Canceller (dual action model)	4 years
Nature's Lift, Model 911	5 years
High-Speed Re-facer #88	6 years

UNSECURED PROMISSORY NOTE

Exhibit 11-A

For value received, **Magic Mirror Plastic Surgery, Inc.** (“Payor”) promises to pay to **Frieda Facelift** (“Payee”), or order, at 234 Retiree Road, Green Gulch, CA or at such other place as Payee shall from time to time designate, the principal sum of Four Hundred Thousand Dollars and No Cents (**\$1,929,000.00**) along with interest thereon at the rate of **5% per annum**. Interest shall begin to accrue upon the execution of this note by Payor. Principal and interest **shall be paid as specified on the amortization schedule attached hereto as Exhibit “A”** and incorporated herein by this reference, with the first payment to be made on January 1, 2009 and subsequent payments to be made on the first day of each year until all principal and interest has been paid in full.

Should default be made in the payment of any installment when due, all principal and interest shall become immediately due and payable at the option of the holder of this note. Should interest not be paid when due, it shall thereafter bear interest in the same manner as principal, provided that unpaid interest so compounded shall not exceed an amount equal to simple interest on the unpaid principal at the maximum rate permitted by law.

In the event that Payee employs legal counsel, or institutes legal action, to enforce payments of this note, Payor shall pay reasonable attorneys fees incurred by Payee.

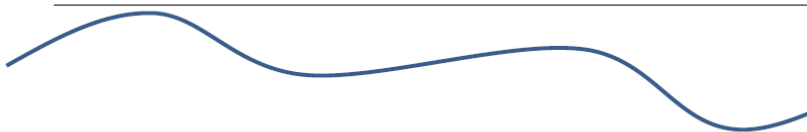
12/20/08 _____
Date executed

Pamela Payor _____
Pamela Payor, President
Magic Mirror Plastic Surgery, Inc.

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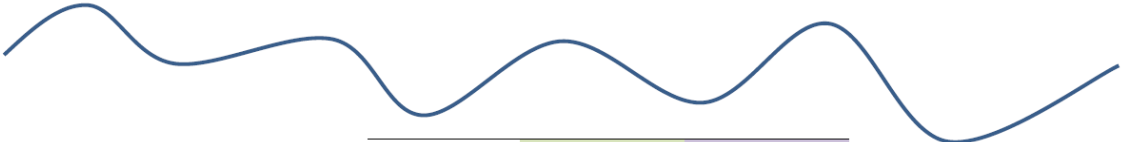
Loan to Magic Mirror Plastic Surgery, Inc.
Exhibit A

Exhibit 11-B

	<u>Year</u>	<u>Interest @ 5%</u>	<u>Principal Payments</u>	<u>Payment Required (I + P)</u>
1	2008			
2	2009	96,450	67,000	163,450
3	2010	93,100	68,000	161,100
4	2011	89,700	69,000	158,700
5	2012	86,250	70,000	156,250
				
20	2017	7,250	145,000	152,250

Magic Mirror Plastic Surgery, Inc.
Loan Amortization Schedule -- Frieda

Exhibit 12

	A	B	C = B * 5%	D	E	F = B+D+E	
	Year	Beginning Balance	Interest @ 5%	Principal Payments		Ending Balance	
				Required	Optional		
1	2008					1,929,000	
2	2009	1,929,000	96,450	(67,000)	-	1,862,000	
3	2010	1,862,000	93,100	(68,000)	-	1,794,000	<< agrees to 2010 liabilities
4	2011	1,794,000	89,700	(69,000)	-	1,725,000	<< agrees to 2011 liabilities
5	2012	1,725,000	86,250	(70,000)	-	1,655,000	
							
20	2017	145,000	7,250	(145,000)	-	-	

BIG BRICK BANK
 (“Our Banking Experience Is as Thick as a Brick!”)
 335 Bullion Blvd., Green Gulch, California 98765
 Phone (213) 232-3232
 Email: mcduck@BucksLikeBricks.com

Exhibit 13-A

Albert Abundant, CPA
 678 Integer Circle
 Digitville, CA 98765

RE: Medical Equipment Financing Proposal

Dear Mr. Abundant:

Thank you for your inquiry. Subject to credit approval, Big Brick Bank is pleased to make the following proposal to finance the purchase of the medical equipment described in last week’s letter:

Proposed Borrower:	Magic Mirror Plastic Surgery, Inc.
Proposed Lender:	Big Brick Bank
Equipment to be financed:	As described in Exhibit “A” attached
Loan amount	\$120,000
Loan term	Five years
Interest rate	5%
Monthly loan payment	\$2,213.58

As you are undoubtedly aware, Big Brick Bank has earned an outstanding reputation as a commercial lender, serving hundreds of businesses just like yours.

Please review and let me know whether our loan terms are acceptable. We are prepared to act immediately.

Exhibit 13-B

**MAGIC MIRROR'S
\$120,000 FINANCING FOR EQUIPMENT PURCHASE
AMORTIZATION SCHEDULE**

Nominal Annual Rate: 5.000 %

	Event	Date	Amount	Number	Period
1	Loan	12/31/2011	120,000.00	1	
2	Payment	01/31/2012	26,562.91	5	Annual

MEDICAL EQUIPMENT LEASING CORPORATION, INC.

("It's The Lease You Can Do!")

456 Lessor Lane, Green Gulch, California 98765

Phone (213) 121-2121

Email: lessor@lease-is-more.com

Exhibit 14

Albert Abundant, CPA
678 Integer Circle
Digitville, CA 98765

RE: Medical Equipment Leasing Proposal

Dear Mr. Abundant:

Thank you for your inquiry. Subject to credit approval, Medical Equipment Leasing Corporation, Inc. is pleased to make the following proposal regarding medical equipment described in last week's letter:

Proposed Lessee:	Magic Mirror Plastic Surgery, Inc.
Proposed Lessor:	Medical Equipment Leasing Corporation, Inc.
Equipment to be leased:	As described in Exhibit "A," attached
Lease term	Five years
Total equipment cost	\$230,000
Initial capital reduction pmt.	\$110,000
Monthly lease payment	\$2,250
Buy-out at term end	\$1

**Monthly
lease
payment
\$2,250**

As you are undoubtedly aware, Medical Equipment Leasing Corporation, Inc., has earned an outstanding reputation in leasing medical equipment to businesses just like yours.

Please review and let me know whether our terms are acceptable. We are prepared to act immediately.

Exhibit 15

Top of Page

Glamour Manor, LLC

2011 Statement of Revenues & Expenses Income Tax Basis		Notes
Rents received	\$ 450,000	<p><<If this were accrual basis, this statement would be an "Income Statement".</p> <p>A statement of Cash Flows is not applicable to Income Tax and Cash Basis financial statements.</p>
Expenses:		
Interest, real estate taxes, etc.	150,000	
Depreciation	100,000	
Total Expense	250,000	
Excess of Revenues over Expenses	\$ 200,000	= line 1 less line 5 also equals line 11
2011 Statement of Members' Capital Income Tax Basis		
Beginning Members' Capital	\$ 570,000	
Excess of Revenues over Expenses	200,000	= line 7 (Pam's share = \$200k x 25% = \$50k)
Distribution to Freida (60%)	(24,000)	line 7 income of \$200K less \$40k distributions (lines 12 through 14) = \$160k undistributed Pam's undistributed = \$160k x 25% = \$40k (See line 31)
Distribution to Pam (25%)	(10,000)	
Distribution to Louie (15%)	(6,000)	
Ending Members' Capital	\$ 730,000	= line 34

2011 Statement of Assets, Liabilities & Stockholders' Equity Income Tax Basis			Notes
Assets:			<div><<If this were accrual basis, this statement would be a "Balance Sheet".</div> <div>Exhibit 15</div> <div>Bottom of Page</div>
Cash	\$	280,000	
Building		1,500,000	
Accumulated depreciation		(300,000)	
Land		750,000	
Total Assets	\$	2,230,000	= line 35
Liabilities:			
Loan: Building	\$	1,500,000	2011 Principal reduction = \$120,000 (required) plus \$200,000 optional principal prepayments
Total Liabilities		1,500,000	
Members' Capital			
Freida (60%)		438,000	See line 13 for Pam's \$10k in distributions. Pam's capital increased by the (\$50k - \$10k =) \$40k that was not distributed to her.
Pam (25%)		182,500	
Louie (15%)		109,500	
Total Members' Capital		730,000	= line 15
Total Liabilities & Members' Capital	\$	2,230,000	= line 25

1065		U.S. Return of Partnership Income		OMB No. 1545-0099	
Form 1065 Department of the Treasury Internal Revenue Service		For calendar year 2011, or tax year beginning 2011, ending 2011, ending 2011		2011	
A. Principal business activity		Name of partnership GLAMOUR MANOR, LLC		D. Employer identification number 12-3456789	
B. Principal product or service		Number, street, and room or suite no. If a P.O. box, see the instructions. 1234 ANY STREET		E. Date business started 12/31/2000	
C. Business code number		City or town, state, and ZIP code ANY TOWN, CA 91711		F. Total assets (see the instructions) \$ 2,230,000	
G. Check applicable boxes: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change (5) <input type="checkbox"/> Amended return (6) <input type="checkbox"/> Technical termination - also check (1) or (2)					
H. Check accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶					
I. Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ 3					
J. Check if Schedules C and M-3 are attached <input type="checkbox"/>					
Caution. Include only trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.					
Income	1a	Merchant card and third-party payments (including amounts reported on Form(s) 1099-K). For 2011, enter -0-	1a		
	b	Gross receipts or sales not reported on line 1a (see instructions)	1b		
	c	Total. Add lines 1a and 1b	1c		
	d	Returns and allowances plus any other adjustments to line 1a (see instructions)	1d		
	e	Subtract line 1d from line 1c	1e		
	2	Cost of goods sold (attach Form 1125-A)	2		
	3	Gross profit. Subtract line 2 from line 1e	3		
	4	Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	4		
	5	Net farm profit (loss) (attach Schedule F (Form 1040))	5		
	6	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6		
Deductions (see the instructions for limitations)	7	Other income (loss) (attach statement)	7		
	8	Total income (loss). Combine lines 3 through 7	8		
	9	Salaries and wages (other than to partners) (less employment credits)	9		
	10	Guaranteed payments to partners	10		
	11	Repairs and maintenance	11		
	12	Bad debts	12		
	13	Rent	13		
	14	Taxes and licenses	14		
	15	Interest	15		
	16a	Depreciation (if required, attach Form 4562)	16a		
	b	Less depreciation reported on Form 1125-A and elsewhere on return	16b		
	16c	Depreciation (Do not deduct oil and gas depletion.)	16c		
	17	Retirement plans, etc.	17		
	18	Employee benefit programs	18		
	19	Other deductions (attach statement)	19		
	20	Total deductions. Add the amounts shown in the far right column for lines 9 through 20.	20		
21	Total deductions. Add the amounts shown in the far right column for lines 9 through 20.	21			
22	Ordinary business income (loss). Subtract line 21 from line 8	22			
Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.				
Paid Preparer Use Only	Print/Type preparer's name QUALIFIED PREPARER	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN XXXXXX
	Firm's name ▶ CPA FIRM	Firm's EIN ▶ 95-1000000	Phone no. 999-999-9999		
	Firm's address ▶ 123 ANY STREET, ANY TOWN, CA 91711				

Exhibit 16-A

This tax form is NOT user friendly. Many people expect that page one would be the summary of income – just like the individual tax form.

For a partnership return, key pages are:

- Page 4 where income is summarized, and
- Schedule K-1 where that income is allocated to each partner.

Form 1065 (2011)				Page 2		
Schedule B Other Information						
1 What type of entity is filing this return? Check the applicable box:					Yes	No
a <input type="checkbox"/> Domestic general partnership	b <input type="checkbox"/> Domestic limited partnership					
c <input checked="" type="checkbox"/> Domestic limited liability company	d <input type="checkbox"/> Domestic limited liability partnership					
e <input type="checkbox"/> Foreign partnership	f <input type="checkbox"/> Other ▶					
2 At any time during the tax year, was any partner in the partnership a disregarded entity, a partnership (including an entity treated as a partnership), a trust, an S corporation, an estate (other than an estate of a deceased partner), or a nominee or similar person?						✓
3 At the end of the tax year:						
a Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization, or any foreign government own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership						✓
b Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership					✓	
4 At the end of the tax year, did the partnership:						
a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below						✓
(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock			
b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below						
(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Maximum Percentage Owned in Profit, Loss, or Capital		

Form **1065** (2011)

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Form 1065 (2011)

Page **3**

	Yes	No
5 Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(i) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
6 Does the partnership satisfy all four of the following conditions?		
a The partnership's total receipts for the tax year were less than \$250,000.	<input type="checkbox"/>	<input type="checkbox"/>
b The partnership's total assets at the end of the tax year were less than \$1 million.	<input type="checkbox"/>	<input type="checkbox"/>
c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.	<input type="checkbox"/>	<input type="checkbox"/>
d The partnership is not filing and is not required to file Schedule M-3. If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or item L on Schedule K-1.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
7 Is this partnership a publicly traded partnership as defined in section 469(k)(2)?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
8 During the tax year, did the partnership have any debt that was cancelled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
9 Has this partnership filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
10 At any time during calendar year 2011, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the Instructions for exceptions and filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts. If "Yes," enter the name of the foreign country: ▶	<input checked="" type="checkbox"/>	<input type="checkbox"/>
11 At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See Instructions.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
12a Is the partnership making, or had it previously made (and not revoked), a section 754 election? See Instructions for details regarding a section 754 election.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
b Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See Instructions.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
c Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d))? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See Instructions.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
13 Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than disregarded entities wholly-owned by the partnership throughout the tax year) ▶ <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14 At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
15 If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8858 attached. See Instructions ▶	<input type="checkbox"/>	<input type="checkbox"/>
16 Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership: ▶	<input type="checkbox"/>	<input checked="" type="checkbox"/>
17 Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return: ▶	<input type="checkbox"/>	<input type="checkbox"/>
18a Did you make any payments in 2011 that would require you to file Form(s) 1099? See Instructions.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
b If "Yes," did you or will you file all required Form(s) 1099?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
19 Enter the number of Form(s) 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, attached to this return: ▶ 0	<input type="checkbox"/>	<input type="checkbox"/>

Designation of Tax Matters Partner (see instructions)
Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ DESIGNATED TAX MATTERS PARTNER	Identifying number of TMP ▶ 95-9999999
If the TMP is an entity, name of TMP representative ▶	Phone number of TMP ▶
Address of designated TMP ▶	

Form **1065** (2011)

Exhibit 16-C

Form 1065 (2011)		Exhibit 16-D		Top of Page		Page 4	
Schedule K		Partners' Distributive Share Items		Total amount			
Income (Loss)	1	Ordinary business income (loss) (page 1, line 22)		1			
	2	Net rental real estate income (loss) (attach Form 8825)		2		200,000	
	3a	Other gross rental income (loss)	3a				
	b	Expenses from other rental activities (attach statement)	3b				
	c	Other net rental income (loss). Subtract line 3b from line 3a	3c				
	4	Guaranteed payments	4				
	5	Interest income	5				
	6	Dividends: a Ordinary dividends	6a				
	b	Qualified dividends	6b				
	7	Royalties	7				
	8	Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8				
Deductions	9a	Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a				
	b	Collectibles (28%) gain (loss)	9b				
	c	Unrecaptured section 1250 gain (attach statement)	9c				
	10	Net section 1231 gain (loss) (attach Form 4797)	10				
Self-Employment	11	Other income (loss) (see instructions) Type ▶	11				
	12	Section 179 deduction (attach Form 4562)	12		0		
	13a	Contributions	13a				
	b	Investment interest expense	13b				
Credits	c	Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶	13c(2)				
	d	Other deductions (see instructions) Type ▶	13d				
	14a	Net earnings (loss) from self-employment	14a		0		
	b	Gross farming or fishing income	14b				
	c	Gross nonfarm income	14c				
	15a	Low-income housing credit (section 42(j)(5))	15a				
	b	Low-income housing credit (other)	15b				
	c	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468)	15c				
d	Other rental real estate credits (see instructions) Type ▶	15d					
e	Other rental credits (see instructions) Type ▶	15e					
f	Other credits (see instructions) Type ▶	15f					

Exhibit 16-D

Bottom of Page

Foreign Transactions	16a	Name of country or U.S. possession ▶			
	b	Gross income from all sources	16b		
	c	Gross income sourced at partner level	16c		
		Foreign gross income sourced at partnership level			
	d	Passive category ▶ e General category ▶ f Other ▶	16f		
		Deductions allocated and apportioned at partner level			
	g	Interest expense ▶ h Other ▶	16h		
		Deductions allocated and apportioned at partnership level to foreign source income			
	i	Passive category ▶ j General category ▶ k Other ▶	16k		
	l	Total foreign taxes (check one): ▶ Paid <input type="checkbox"/> Accrued <input type="checkbox"/>	16l		
Alternative Minimum Tax (AMT) Items	m	Reduction in taxes available for credit (attach statement)	16m		
	n	Other foreign tax information (attach statement)			
	17a	Post-1986 depreciation adjustment	17a		
	b	Adjusted gain or loss	17b		
	c	Depletion (other than oil and gas)	17c		
	d	Oil, gas, and geothermal properties—gross income	17d		
Other Information	e	Oil, gas, and geothermal properties—deductions	17e		
	f	Other AMT items (attach statement)	17f		
	18a	Tax-exempt interest income	18a		
	b	Other tax-exempt income	18b		
	c	Nondeductible expenses	18c		
	19a	Distributions of cash and marketable securities	19a	40,000	
	b	Distributions of other property	19b		
	20a	Investment income	20a		
b	Investment expenses	20b			
c	Other items and amounts (attach statement)				

Form 1065 (2011)

Form 1065 (2011) Page **5**

Analysis of Net Income (Loss)

1 Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16f **1** 200,000

2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other
a General partners						
b Limited partners			200,000			

Schedule L Balance Sheets per Books

	Beginning of tax year		End of tax year	
	(a)	(b)	(c)	(d)
Assets				
1 Cash				280,000
2a Trade notes and accounts receivable				
b Less allowance for bad debts				
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets (attach statement)				
7a Loans to partners (or persons related to partners)				
b Mortgage and real estate loans				
8 Other investments (attach statement)				
7a Loans to partners (or persons related to partners)				
b Mortgage and real estate loans				
8 Other investments (attach statement)				
9a Buildings and other depreciable assets			1,500,000	
b Less accumulated depreciation			300,000	1,200,000
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				750,000
12a Intangible assets (amortizable only)				
b Less accumulated amortization				
13 Other assets (attach statement)				
14 Total assets				2,230,000
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities (attach statement)				
18 All nonrecourse loans				
19a Loans from partners (or persons related to partners)				
b Mortgages, notes, bonds payable in 1 year or more				1,500,000
20 Other liabilities (attach statement)				
21 Partners' capital accounts				730,000
22 Total liabilities and capital				2,230,000

Exhibit 16-E

Top of Page

Exhibit 16-E

Bottom of Page

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Note. Schedule M-3 may be required instead of Schedule M-1 (see instructions).

1	Net income (loss) per books	200,000	6	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):		a	Tax-exempt interest \$	
3	Guaranteed payments (other than health insurance)		7	Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize):	
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize):		a	Depreciation \$	
a	Depreciation \$		8	Add lines 6 and 7	
b	Travel and entertainment \$		9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5 .	200,000
5	Add lines 1 through 4				

Schedule M-2 Analysis of Partners' Capital Accounts

1	Balance at beginning of year	570,000	6	Distributions: a Cash	40,000
2	Capital contributed: a Cash			b Property	
	b Property		7	Other decreases (itemize):	
3	Net income (loss) per books	200,000	8	Add lines 6 and 7	
4	Other increases (itemize):		9	Balance at end of year. Subtract line 8 from line 5	730,000
5	Add lines 1 through 4	770,000			

Form 1065 (2011)

Bottom of
Form

Exhibit 17-A

Enlargement of lower left

Schedule K-1
(Form 1065)
Department of the Treasury
Internal Revenue Service

2011
For calendar year 2011, or tax year beginning _____, 2011
ending _____, 20

Partner's Share of Income, Deductions, Credits, etc.
See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
12-3456789

B Partnership's name, address, city, state, and ZIP code
GLAMOUR MANOR, LLC
1234 ANY STREET
ANY TOWN, CA 91711

C IRS Center where partnership filed return
OGDEN, UT

D ☐ Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number
556-99-999

F Partner's name, address, city, state, and ZIP code
PAM PAYOR
456 ANY STREET
ANY TOWN, CA 91711

G ☐ General partner or LLC member-manager ☒ Limited partner or other LLC member

H ☐ Domestic partner ☐ Foreign partner

I What type of entity is this partner? **INDIVIDUAL**

J Partner's share of profit, loss, and capital (see instructions).

	Beginning	Ending
Profit	25 %	25 %
Loss	25 %	25 %
Capital	25 %	25 %

K Partner's share of liabilities at year end:

Nonrecourse	\$
Qualified nonrecourse financing	\$
Recourse	\$

L Partner's capital account analysis:

Beginning capital account	\$	142,500
Capital contributed during the year	\$	
Current year increase (decrease)	\$	50,000
Withdrawals & distributions	\$	(10,000)
Ending capital account	\$	182,500

☒ Tax basis ☐ GAAP ☐ Section 704(b) book
Did the partner contribute property with a built-in gain or loss?
☐ Yes ☒ No
If "Yes," attach statement (see instructions)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1 Ordinary business income (loss)	0	15 Credits
2 Net rental real estate income (loss)	50,000	
3 Other net rental income (loss)		16 Foreign transactions
4 Guaranteed payments		
5 Interest income		
6a Ordinary dividends		
6b Qualified dividends		
7 Royalties		
8 Net short-term capital gain (loss)		
9a Net long-term capital gain (loss)		17 Alternating
9b Collectibles (28%) gain (loss)		
9c Unrecaptured section 1250 gain		
10 Net section 1231 gain (loss)		18 Tax-exempt income and nondeductible expenses
11 Other income (loss)		
12 Section 179 deduction	0	19 A Distributions 10,000
13 Other deductions		20 Other information
14 Self-employment earnings (loss)	0	
See attached statement for additional information.		

For IRS Use Only

Lower Left

Pam's capital account is shown above. Her account is increased by \$50,000 in taxable income and reduced by \$10,000 distributed to Pam. The difference is undistributed income (\$50-10 = \$40).

Schedule K-1 (Form 1065) 2011

Page

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows.

	Report on
Passive loss	See the Partner's Instructions
Passive income	Schedule E, line 28, column (g)
Nonpassive loss	Schedule E, line 28, column (h)
Nonpassive income	Schedule E, line 28, column (i)
2. Net rental real estate income (loss)	See the Partner's Instructions
3. Other net rental income (loss)	
Net income	Schedule E, line 28, column (g)
Net loss	See the Partner's Instructions
4. Guaranteed payments	Schedule E, line 28, column (j)
5. Interest income	Form 1040, line 8a
6a. Ordinary dividends	Form 1040, line 9a
6b. Qualified dividends	Form 1040, line 9b
7. Royalties	Schedule E, line 3b
8. Net short-term capital gain (loss)	Schedule D, line 5
9a. Net long-term capital gain (loss)	Schedule D, line 12
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c. Unrecaptured section 1250 gain	See the Partner's Instructions
10. Net section 1231 gain (loss)	See the Partner's Instructions
11. Other income (loss)	

Code	
A Other portfolio income (loss)	See the Partner's Instructions
B Involuntary conversions	See the Partner's Instructions
C Sec. 1256 contracts & straddles	Form 6781, line 1
D Mining exploration costs recapture	See Pub. 535
E Cancellation of debt	Form 1040, line 21 or Form 982
F Other income (loss)	See the Partner's Instructions
12. Section 179 deduction	See the Partner's Instructions

13. Other deductions	
A Cash contributions (50%)	See the Partner's Instructions
B Cash contributions (30%)	
C Noncash contributions (50%)	
D Noncash contributions (30%)	
E Capital gain property to a 50% organization (30%)	
F Capital gain property (20%)	See the Partner's Instructions
G Contributions (100%)	
H Investment interest expense	Form 4952, line 1
I Deductions—royalty income	Schedule E, line 19
J Section 59(e)(2) expenditures	See the Partner's Instructions
K Deductions—portfolio (2% floor)	Schedule A, line 23
L Deductions—portfolio (other)	Schedule A, line 28
M Amounts paid for medical insurance	Schedule A, line 1 or Form 1040, line 29
N Educational assistance benefits	See the Partner's Instructions
O Dependent care benefits	Form 2441, line 12
P Preproductive period expenses	See the Partner's Instructions
Q Commercial revitalization deduction	See Form 8582 instructions

Code	Report on
J Work opportunity credit	See the Partner's Instructions
K Disabled access credit	
L Empowerment zone and renewal community employment credit	
M Credit for increasing research activities	
N Credit for employer social security and Medicare taxes	
O Backup withholding	Form 1040, line 62
P Other credits	See the Partner's Instructions
Foreign transactions	
A Name of country or U.S. possession	Form 1116, Part I
B Gross income from all sources	
C Gross income sourced at partner level	
<i>Foreign gross income sourced at partnership level</i>	
D Passive category	Form 1116, Part I
E General category	
F Other	
<i>Deductions allocated and apportioned at partner level</i>	
G Interest expense	Form 1116, Part I
H Other	Form 1116, Part I
<i>Deductions allocated and apportioned at partnership level to foreign source income</i>	
I Passive category	Form 1116, Part I
J General category	
K Other	
<i>Other information</i>	
L Total foreign taxes paid	Form 1116, Part II
M Total foreign taxes accrued	Form 1116, Part II
N Reduction in taxes available for credit	Form 1116, line 12
O Foreign trading gross receipts	Form 8873
P Extraterritorial income exclusion	Form 8873
Q Other foreign transactions	See the Partner's Instructions
Alternative minimum tax (AMT) items	
A Post-1986 depreciation adjustment	See the Partner's Instructions and the Instructions for Form 6251
B Adjusted gain or loss	
C Depletion (other than oil & gas)	
D Oil, gas, & geothermal—gross income	
E Oil, gas, & geothermal—deductions	
F Other AMT items	
Tax-exempt income and nondeductible expenses	
A Tax-exempt interest income	Form 1040, line 8b
B Other tax-exempt income	See the Partner's Instructions
C Nondeductible expenses	See the Partner's Instructions
Distributions	
A Cash and marketable securities	

Exhibit 17-B

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SECURED PROMISSORY NOTE

Exhibit 18-A

For value received, **Glamour Manor, LLC ("Payor")** promises to pay to **Big Brick Bank ("Payee")**, or order, at 335 Bullion Blvd., Green Gulch, CA or at such other place as Payee shall from time to time designate, the principal sum of Four Hundred Thousand Dollars and No Cents (**\$2,060,000.00**) **along with interest thereon at the rate of 3% per annum**. Interest shall begin to accrue upon the execution of this note by Payor. Principal and interest shall be paid at the rate of One Hundred Twenty Thousand Dollars and No Cents (**\$120,000.00**) **per year**, with the first payment to be made on January 1, 2009 and subsequent payments to be made on the first day of each year until all principal and interest has been paid in full.

Should default be made in the payment of any installment when due, all principal and interest shall become immediately due and payable at the option of the holder of this note. Should interest not be paid when due, it shall thereafter bear interest in the same manner as principal, provided that unpaid interest so compounded shall not exceed an amount equal to simple interest on the unpaid principal at the maximum rate permitted by law.

In the event that Payee employs legal counsel, or institutes legal action, to enforce payments of this note, Payor shall pay reasonable attorneys fees incurred by Payee.

This note is secured by a deed of trust bearing even date herewith. In the event that Payor (trustor under said deed of trust) sells, conveys or encumbers the property which is the subject matter of said deed of trust, or any interest therein, Payee shall have the right, at Payee's option, to declare this note immediately due and payable without further notice to Payor.

12/20/08

Date executed

*Frieda Facelift*Frieda Facelift, Member
Glamour Manor, LLC

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Glamour Manor, LLC
Loan Amortization Schedule -- Land and Building

Exhibit 18-B

Year	Beginning Balance	Interest @ 3%	Principal Payments	Ending Balance
2008				2,060,000
2009	2,060,000	61,800	(120,000)	1,940,000
2010	1,940,000	58,200	(120,000)	1,820,000
2011	1,820,000	54,600	(120,000)	1,700,000
2012	1,700,000	51,000	(120,000)	1,580,000
2013	1,580,000	47,400	(120,000)	1,460,000
2014	1,460,000	43,800	(120,000)	1,340,000
2015	1,340,000	40,200	(120,000)	1,220,000
2016	1,220,000	36,600	(120,000)	1,100,000
2017	1,100,000	33,000	(120,000)	980,000
2018	980,000	29,400	(120,000)	860,000
2019	860,000	25,800	(120,000)	740,000
2020	740,000	22,200	(120,000)	620,000
2021	620,000	18,600	(120,000)	500,000
2022	500,000	15,000	(120,000)	380,000
2023	380,000	11,400	(120,000)	260,000
2024	260,000	7,800	(120,000)	140,000
2025	140,000	4,200	(120,000)	20,000
2025	20,000	600	(20,000)	-

<< agrees to
2011 liabilities

Exhibits 1 to 5 Exhibits 6 to 10 Exhibits 11 to 15 Exhibits 16 to 20 Exhibits 21 to 22 Positions Rule 102												
16-A	16-B	16-C	16-D Top	16-D Bottom	16-E Top	16-E Bottom	16-F	17-A	17-B	18-A	18-B	19 20

Glamour Manor, LLC Loan Amortization Schedule -- Land and Building						Exhibit 19	
	A	B	C = B * 3%	D	E	F = B+D+E	
	Year	Beginning Balance	Interest @ 3%	Principal Payments Required Optional		Ending Balance	
1	2008					2,060,000	
2	2009	2,060,000	61,800	(120,000)	-	1,940,000	
3	2010	1,940,000	58,200	(120,000)	-	1,820,000	
4	2011	1,820,000	54,600	(120,000)	(200,000)	1,500,000	<< agrees to 2011 liabilities
5	2012	1,500,000	45,000	(120,000)	-	1,380,000	
6	2013	1,380,000	41,400	(120,000)	-	1,260,000	
7	2014	1,260,000	37,800	(120,000)	-	1,140,000	
8	2015	1,140,000	34,200	(120,000)	-	1,020,000	
9	2016	1,020,000	30,600	(120,000)	-	900,000	
10	2017	900,000	27,000	(120,000)	-	780,000	
11	2018	780,000	23,400	(120,000)	-	660,000	
12	2019	660,000	19,800	(120,000)	-	540,000	
13	2020	540,000	16,200	(120,000)	-	420,000	
14	2021	420,000	12,600	(120,000)	-	300,000	
15	2022	300,000	9,000	(120,000)	-	180,000	
16	2023	180,000	5,400	(120,000)	-	60,000	
17	2024	60,000	1,800	(60,000)	-	-	
18							
19	Paid off early due to optional principal payment in 2011.						
20							

RECORDING REQUESTED BY
ORDER # 34567
APN 343-22-3434
WHEN RECORDED MAIL TO
Name
Street Address
City & State

Acme In-House, Esq.
123 Security Street
Green Gulch, CA 98765

Exhibit 20

SPACE ABOVE THIS LINE FOR RECORDER'S USE

SHORT FORM DEED OF TRUST AND ASSIGNMENT OF RENTS

This Deed of Trust, made this 20th day of December, 2008, between
whose address is 123 Any Street Any Town CA 91711
OLD REPUBLIC TITLE COMPANY, a California corporation, herein called TRUSTEE, and
Big Brick Bank
Rivera County, California, described on "Exhibit A" attached hereto
In the event the herein described property or any part thereof, or any interest therein is sold, agreed to be sold, conveyed or alienated by the Trustor, or by the operation of law or otherwise, all obligations secured by this instrument, irrespective of the maturity dates expressed therein, at the option of the holder hereof and without demand or notice shall immediately become due and payable.
TOGETHER WITH the rents, issues and profits thereof, SUBJECT, HOWEVER, to the right, power and authority given to and conferred upon Beneficiary by paragraph (10) of the provisions incorporated herein by reference to collect and apply such rents, issues and profits.
For the Purpose of Securing: 1. Performance of each agreement of Trustor incorporated by reference or contained herein. 2. Payment of the indebtedness evidenced by one promissory note of even date herewith, including any extensions, in the principal sum of \$2,060,000 executed by Trustor in favor of Beneficiary or order. 3. Payment of such further sums as the then record owner of said property hereafter may borrow from Beneficiary, when evidenced by another note (or notes) reciting it is so secured.
To Protect the Security of This Deed of Trust, Trustor Agrees: By the execution and delivery of this Deed of Trust and the note secured hereby, that provisions (1) to (14), inclusive, of the fictitious deed of trust recorded in Santa Barbara County and Sonoma County October 18, 1961, and in all other counties October 23, 1961, in the book and at the page of Official Records in the office of the county recorder of the county where said property is located, noted below opposite the name of such county, viz:
COUNTY BOOK PG COUNTY BOOK PG COUNTY BOOK PG COUNTY BOOK PG COUNTY BOOK PG COUNTY BOOK PG
Alameda 437 584 Imperial 1091 551 Modoc 184 351 San Diego Series 2 Book 1961 Page 183887 Sonoma 1821 689
Alpine 1 250 Inyo 147 588 Mono 52 429 San Francisco 4372 905 Stanislaus 1715 456
Amador 184 248 Kern 3427 60 Monterey 2194 538 San Joaquin 2470 311 Sutter 572 297
Butte 1145 1 Kings 702 833 Napa 639 86 San Luis Obispo 1151 12 Tehama 401 289
Calaveras 145 152 Lake 362 39 Nevada 305 320 San Mateo 4978 420 Trinity 93 366
Colusa 286 417 Lassen 171 471 Orange 5889 611 Santa Barbara 1878 860 Tulare 2294 275
Contra Costa 3978 47 Los Angeles T2055 899 Placer 895 301 Santa Cruz 5336 341 Tuolumne 155 47
Del Norte 78 414 Madison 810 170 Plumas 151 5 Sierra 1431 494 Ventures 2062 386
El Dorado 568 456 Maricopa 77 292 Sacramento 431 62 Shasta 884 528 Yuba 653 245
Fresno 4026 572 Mariposa 179 530 San Benito 271 382 Siskiyou 29 335 Yuba 653 245
Glen 422 184 Mendocino 1547 538 San Bernardino 5567 61 Solano 1105 182
Humboldt 657 527 Merced 1547 538

(which provisions, identical in all counties, are printed on the reverse hereof) hereby are adopted and incorporated herein and made a part hereof as fully as though set forth herein at length; that he will observe and perform said provisions; and that the references to property, obligations, and parties in said provisions shall be construed to refer to the property, obligations, and parties set forth in this Deed of Trust.
The undersigned Trustor requests that a copy of any Notice of Default and of any Notice of Sale hereunder be mailed to him at his address hereinbefore set forth.

Frieda Facelift
Frieda Facelift
Member, Glamour Manor, LLC

BIG BRICK BANK
("Our Banking Experience Is as Thick as a Brick!")
335 Bullion Blvd., Green Gulch, California 98765
Phone (213) 232-3232
Email: mcduck@BucksLikeBricks.com

Exhibit 21-A

Albert Abundant, CPA
678 Integer Circle
Digitville, CA 98765

RE: New Second Trust Deed Proposal

Dear Mr. Abundant:

Thank you for your inquiry. You have informed my office that Glamour Manor is considering adding a surgical wing to its medical building located at 123 Any Street in Any Town.

As we have discussed, this letter describes the terms under which our bank would make a \$360,000 loan secured by a new second trust deed on the medical building (details attached). Subject to credit approval, Big Brick Bank would propose the following loan terms:

Proposed Borrower:	Glamour Manor, LLC
Proposed Lender:	Big Brick Bank
Loan purpose:	Addition of 1,100 square-foot surgery wing to medical building at 123 Any Street, Any Town
Loan amount:	\$360,000.00
Loan term:	Ten years
Interest rate	6.00%
Annual loan payment:	\$48,000 (10 th payment = \$30,331)
Monthly loan payment:	\$4,000

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**GLAMOUR MANOR'S
\$360,000 FINANCING FOR SURGERY CENTER
NEW SECOND TRUST DEED
AMORTIZATION SCHEDULE**

Exhibit 21-B

Nominal Annual Rate: 6.000 %

	Event	Date	Amount	Number	Period
1	Loan	12/31/2011	360,000.00	1	
2	Payment	01/31/2012	48,000.00	9	Annual
3	Payment	01/31/2021	30,331.04	1	

Exhibit 22-A

BIG BRICK BANK
("Our Banking Experience Is as Thick as a Brick!")
335 Bullion Blvd., Green Gulch, California 98765
Phone (213) 232-3232
Email: mcduck@BucksLikeBricks.com

Albert Abundant, CPA
678 Integer Circle
Digitville, CA 98765

RE: Refinanced First Trust Deed Proposal

Dear Mr. Abundant:

Thank you for your inquiry. You have informed my office that Glamour Manor is considering adding a surgical wing to its medical building located at 123 Any Street in Any Town.

It is with pleasure that Big Brick Bank answers your questions regarding financing that can be made available to Glamour Manor. As we have discussed, this letter describes the terms under which our bank offers to refinance the existing first trust deed against the medical building, adding \$360,000 to its principal balance (details attached).

Proposed Borrower:	Glamour Manor, LLC
Proposed Lender:	Big Brick Bank
Loan purpose:	Addition of 1,100 square-foot surgery wing to medical building at 123 Any Street, Any Town

Loan amount: **\$1,860,000**
(\$1,500,000 balance owed on first trust deed as of 1/1/12, *plus* \$360,000 new second trust deed)

Loan term: **Ten years**

Interest rate **3.00%**

Annual loan payment: **\$242,239.54**

Monthly loan payment: **\$20,186.63**

Monthly payment =
\$20,186.63

**GLAMOUR MANOR'S
\$360,000 FINANCING FOR SURGERY CENTER
REFINANCE EXISTING FIRST TRUST DEED
(WITH \$1,500,000 BALANCE)
AMORTIZATION SCHEDULE**

Exhibit 22-B

Nominal Annual Rate: 5.000 %

	Event	Date	Amount	Numbe	Period
1	Loan	12/31/2011	1,860,000.00	1	
2	Payment	12/31/2012	242,239.54	10	Annual

**Parties' Positions Regarding
Magic Mirror Plastic Surgery, Inc. (S. Corp.)
Income Available for Support Issues**

	Issues	Positions		Difference
		Pam	Rodney	
1	Compensation			
2	Salary	400,000	400,000	-
3	Principal Reduction Payments			
4	Equipment loan (\$50k x 60% ownership)	(30,000)	-	30,000
5	Frieda loan (\$69k x 60% ownership)	(41,400)	-	41,400
6	Depreciation			
7	Medical Equipment Straight Line Depreciation (\$50k x 60% ownership)	-	30,000	30,000
8	Section 179 (\$150k x 60%)	-	90,000	90,000
9	Distribution / Phantom Income			
10	Sub S Distribution	180,000	180,000	-
11	Undistributed Income (\$480k-\$180k)	-	300,000	300,000
12	Capital Requirements			
13	Equipment acquisition:			-
14	Cost = \$230k Available = \$110k			-
15	Need difference of \$120k over 12 months			-
16	Need = \$10k/ month = \$120k/year x 60%	(72,000)	-	72,000
17	Annual Income Available for Support	436,600	1,000,000	563,400
18	Monthly =	36,383	83,333	46,950

**Parties' Positions Regarding
Glamour Manor, LLC
Income Available for Support Issues**

	A <u>Issues</u>	B <u>Positions</u>		C <u>Difference</u>
		Pam	Rodney	
1	Principal Reduction Payments			
2	2011 required principal reduction = \$120,000 (\$120,000 x 25% = \$30,000)	(30,000)	-	30,000
3	2011 optional principal reduction = \$200,000 (\$200,000 x 25% = \$50,000)	(50,000)		50,000
4	Depreciation			
5	Depreciation on real property (\$100,000 x 25% = \$25,000)	-	25,000	25,000
6	Distributions / Phantom Income			
7	Distribution to Pam (\$40,000 x 25%) =	10,000	10,000	-
8	Pam's Undistributed Income = \$200,000 x 25% = \$50,000 less \$10,000 =	-	40,000	40,000
9	Capital Requirements/Reserves			
10	Add surgical suite:			
11	Cost = \$500,000. Need \$360,000 net of	(90,000)	-	90,000
12	available cash. \$360,000 x 25% = \$90,000			
13	needed over 12 months			
14	Annual Income Available for Support	(160,000)	75,000	235,000
15	Monthly =	(13,333)	6,250	19,583




Professional Standards for Certified Public Accountants

.01 Rule 102—Integrity and objectivity.






In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.

[As adopted January 12, 1988.]


Application of Rule 102 to Forensic Accounting

Professional Standards and Conduct Considerations: What are the components of Rule 102 regarding objectivity?

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Components of Rule 102:

- Objectivity
 - Practitioner must be impartial, honest, & free of conflict.
 - Compare to attorneys – who are advocates.
 - Practitioners may only advocate their position.

Click Resources for Additional Notes on the Components of Rule 102

Vanessa: Rule 102 relates to objectivity. A forensic accountant has to be impartial, honest and free of any conflict of interest. As a forensic accountant you really cannot knowingly misrepresent the facts. You have to be honest and truthful. As an expert you can only advocate for your own position, and you have to have confidence in the analysis you develop. Your job is to assist the Trier of Fact in the decision relating to damages in an area where you are the expert.

This is transcript and may include grammatical errors in the spoken word.