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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF UTAH, CENTRAL DIVISION

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, vs. MANAGEMENT SOLUTIONS, INC., a Texas Corporation; WENDELL A. JACOBSON; ALLEN R. JACOBSON, Defendants.	**NOTICE OF FILING OF MARCH 15, 2013 SUPPLEMENTAL REPORT TO THE RECEIVER OF MANAGEMENT SOLUTIONS, INC.** Civil Action No. 2:11-cv-01165 Judge Bruce S. Jenkins

John A. Beckstead, as receiver for Defendants Management Solutions, Inc., Wendell A. Jacobson, Allen R. Jacobson, and others (the "Receiver"), gives notice of filing of March 15, 2013 Supplemental Report to the Receiver of Management Solutions, Inc., attached hereto as Ex. A. The exhibits to Exhibit A have not been included. The exhibits will be filed shortly.

RESPECTFULLY SUBMITTED this 19th day of March, 2013.

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CERTIFICATE OF SERVICE

I hereby certify that on the 19th day of March, 2013, I caused a true and correct copy of the foregoing to be served in the following manner upon the addressee(s) listed below:

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EXHIBIT "A"

Supplemental Report to the Receiver of Management Solutions, Inc.

Issuance date: March 15, 2013

CONTENTS

I. SUMMARY OF THE COMMINGLING REPORT OF NOVEMBER 2, 2012 ("COMMINGLING REPORT")

- The complexity and magnitude of the commingling of investor funds was extensive and pervasive throughout the entire period from 1996 to 2011.
- The Thunder Bay Mortgage Company ("Thunder Bay") bank accounts were the primary bank accounts through which investor's funds and investor entity's funds were commingled. Thunder Bay is an entity 100% owned by Wendell Jacobson.[1]
- The QuickBooks accounting records revealed that for the period from January 4, 1996 to December 13, 2011, approximately $1.7 billion of funds were transferred in and out of Thunder Bay.[2] This involved 335 investors and 240 investor entities.[3] The Commingling Report provided six examples of commingling, summarized as follow:
    - <u>Example 1</u> shows an instance where $675,000 of investor money was invested with a Management Solutions, Inc. ("MSI") Investor Entity in 2007. Rather than being used for an investment in a property, as the corporate documentation suggests, it was commingled and utilized to pay for expenses related to a potential ski resort, via 20 transactions and 6 MSI managed entities.[4]
    - <u>Example 2</u> is a series of transactions in 1996 where money from one investor was obtained based on an offer of a high interest rate and those funds were then commingled and utilized to repay another earlier investor. In this example MSI received an investment of $150,000 from one investor, J. Robert Miller, with an agreed-upon interest

[1] *See* Appendix A of the Commingling Report.
[2] *See* Appendix C of the Commingling Report.
[3] *See* Paragraph 17 on page 8 of the Commingling Report.
[4] *See* Example 1 starting on Page 9 of the Commingling Report.

rate of 18%. These funds were commingled in Thunder Bay and used to repay $200,000 to another investor, Gene & Mary Ann McDermott, who had invested money with Squaw Springs in relation to the activity of Oak Trails.[5]

- Example 3 is a series of 2011 transactions which shows a refund of mortgage reserves for the Brooksedge property in the amount of $258,456, being deposited in an MSI entity then being commingled through a series of at least 30 transactions between 12 MSI managed entities. The funds were ultimately used to pay the taxes of Gene Jacobson, the mortgage of the Plum Tree property, and fees to Boulder Development Corporation (a company 100% owned by the Jacobson Family). This is despite restrictions on the use of Brooksedge assets in the company regulations.[6]
- Example 4 demonstrates that the proceeds from the sale of Dezavala Oaks were used for purposes, other than to pay a return to the investors in that property. The investors in Dezavala Oaks expected returns of $4.7 million from the sale of a 49.5% interest in the property to another MSI investor. The cash from the sale was commingled in Thunder Bay and utilized for other purposes. Over two weeks later the QuickBooks transactions indicate a payment of $4.7 million was paid to investors. In actuality, $2.8 million was "rolled" by investors into other MSI properties and $1.9 million of cash was paid to investors from commingled funds. At the end of April approximately $1.9 million of cash was received from investors and commingled in the consolidated MSI enterprise.[7]
- Example 5 demonstrates that Wendell Jacobson, through his handwritten notes, was directing fund transactions to be commingled through title companies. Mountain

[5] *See* Example 2 starting on Page 16 of the Commingling Report.
[6] *See* Example 3 starting on Page 23 of the Commingling Report.
[7] *See* Example 4 starting on Page 32 of the Commingling Report.

Enterprises paid $1 million of commingled funds to Republic Title of Texas, who in turn paid the $1 million to Thunder Bay Mortgage Company as a fee. These funds were then utilized to pay down loans related to the security alarm company, Platinum Protection.[8]

- Example 6 focuses on transactions identified in spreadsheets maintained by Allen Jacobson that show consolidated potential cash inflows and outflows for a 2 to 6 month period. The spreadsheets do not segregate investor funds and they do not have profits from operations despite including the monthly interest checks to investors.[9] Allen Jacobson's spreadsheets demonstrate that the cash flows of the consolidated MSI enterprise were managed on a consolidated basis and not an individual property by property basis.

[8] *See* Example 5 starting on Page 46 of the Commingling Report.
[9] *See* Example 6 starting on Page 55 of the Commingling Report.

II. SUMMARY OF THE SUPPLEMENTAL REPORT

- The records of MSI and related companies were maintained in a manner that made it unworkable to prepare a financial picture, including the aggregate sources and uses of cash, on a consolidated basis for an extended period of time.[10] Faced with this obstacle we have looked at the finances of the consolidated MSI enterprise from several different angles to understand if the properties generated sufficient cash flow to pay investors.

Consolidated cash flow forecasts prepared by management:

- We found sixteen instances of cash management spreadsheets that detailed payment obligations of the consolidated MSI enterprise and potential sources of cash, but no tracking or inclusion of cash flow from property operations were included in these cash management spreadsheets.[11]
- The cash management spreadsheets maintained by Allen Jacobson covering the period from 2009 through 2011 demonstrate that funds from new investors and other sources, not including operations, were needed to meet investor obligations.[12]

Consolidated financials for 2011 prepared by management:

- For 2011 we performed an analysis of cash flow from operations and payments to investors as summarized in the table below:[13]

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[10] *See* Section V of this Report.
[11] *See* Section VI of this Report.
[12] *See* id.
[13] *See* Section VI of this Report.

2011: Net Cash Flow from Operations	($975,189)	We prepared a consolidated income statement for 2011 based on the property financials provided by the MSI CFO and Starwood Accountant.
2011: Interest Payments to Investors	($12,404,135)	We calculated actual monthly payments to investors for 2011 based on the QuickBooks accounting records, not including proceeds from sales of properties or interests.
Net Shortfall	**($13,379,324)**	

- Consolidated real estate cash operating activity, both for 2011 actual results and the 2012 budget, prepared in conjunction with MSI management, does not reflect sufficient cash flow from the property operations to fund these investor payments.[14]

Detailed analysis of the flow of funds from Haven Barlow investment:

- One of the last investors to invest with MSI was Haven Barlow who invested approximately $2.1 million on November 1, 2011. The following table summarizes the consolidated cash flows of the consolidated MSI enterprise in the seven week period through December 15, 2011.[15]

Cash Inflows		
Bank refinancing and other income	$2.9 million	
Investor deposits	$2.2 million	Includes $2.1 million received from Haven Barlow.
Total cash inflows	*$5.1 million*	
Cash Outflows		
Property Operations:	($0.2 million)	Rental income less expenses and mortgage payments.
Interest payments to investors	($2.0 million)	Interest payments made on a monthly basis to investors.
Principal payments to investors	($2.3 million)	Capital returns to investors (includes 7.4% return on investment)
Total cash outflows	***($4.5 million)***	
Net total for all transactions:	**$0.6 million**	

[14] *See* Section VI of this Report.
[15] *See* Section VII of this Report.

- The above table shows that the cash payments to investors could only be made with the benefit of borrowings from the bank and new investor money including the $2.1 million from Haven Barlow.

Cash flow analysis of six MSI properties:

- Our analysis of the investor lifecycle of several properties also shows that they did not generate sufficient funds to pay investor obligations.[16]

Property	Time Period	Net Cash flow from Operations	Interest Payments to Investors	Excess amounts paid to Investors
Brookhaven	2007 - 2010	($1,318,117)	($1,017,082)	($2,335,199)
Cooper Glen	1999 - 2004	$303,849	($1,049,734)	($745,885)
Abbie Lakes	2005 – 2007	$221,176	($766,667)	($545,491)
Reserve at Abbie Lakes	2005 – 2011	$823,986	($3,364,342)	($2,540,356)
Stonebridge	2006	$197,451	($243,597)	($46,146)
Stonebrook, Idaho	2006 – 2011	$454,353	($863,046)	($408,693)

- Operating income, refinancing proceeds and third party sale proceeds, if any, were all insufficient to meet the investor obligations for the several properties analyzed.[17] MSI relied upon new investor money coming in to make the interest payments to investors.

[16] *See* section VIII of this Report.
[17] *See* sections VI and VII of this Report.

III. INTRODUCTION

1. The Receiver asked Deloitte Financial Advisory Services LLP ("Deloitte FAS") to clarify and supplement our report of November 2, 2012 to more specifically address the questions of:

   (i) Did the property operations generate sufficient funds to pay returns to investors?[18]

   (ii) How were the funds received from investor, Haven Barlow, in November 2011 utilized?

IV. FINDINGS

2. Through our review of the QuickBooks accounting records, bank statements and other corporate records we found that:

   (i) The properties did not generate cash flows from property operations that were sufficient to cover the returns to investors that were paid.

   (ii) The $2.1 million investment from Haven Barlow was commingled and along with $3 million of funds received from refinancing's used to pay $4.3 million to investors.

V. AVAILABLE CORPORATE RECORDS

3. Typically, a report on commingling would have a high level overview of cash inflows and outflows. The Receiver requested that we perform one for the consolidated MSI entities. In the end, the task proved to be unworkable. MSI and all of its related entities maintained separate accounting records in separate accounting files. Typically, subsidiaries and affiliates are set-up within accounting records such that the accounting software can consolidate each of the

[18] In his deposition Wendell Jacobson when asked about how the monthly returns to investors were generated "*Q. They understood it was coming from the rent? A. The property was generating their check, yes.*" see deposition of Wendell Jacobson, dated January 30, 2011 at page 93:12-15.

subsidiary and affiliated companies. MSI and the more than 250 combined property and investor entities each kept stand-alone accounting records that were maintained in a fashion that did not allow the QuickBooks accounting software to consolidate the more than 250 MSI managed entities. As noted in the Commingling report, MSI and related entities frequently transferred funds between entities. Each time funds were transferred from one entity to another entity it required MSI to open up the two sets of accounting records and record the entries in both companies accounting records. At certain times, the entries were recorded on different days. Additionally, while the accounting records may have reflected, as an example, cash being paid to an investor, that investor may have instructed MSI to hold the cash. So, while the accounting records reflected a payment to the investor, we identified numerous transactions where the cash actually went to Thunder Bay and was used as needed for other business purposes. In the end, unless each of the over 1.6 million accounting entries was tracked through the accounting records from both an accounting and an actual cash perspective, it would not be possible to create an accurate portrayal of the correct sources of cash and uses of cash.

4. To address the issues raised we have focused on several of the available corporate records that we found gave us insights into how the Jacobson's managed cash flow and on the cash flows of the property operations. We also reviewed in detail a seven week period prior to the date the Receiver was appointed and for a longer period (between 1999 to 2011) we have focused on six properties to demonstrate the cash flow from those properties was insufficient to make the monthly interest payments to investors.[19]

[19] Our calculations were consistent with the deposition testimony of Wendell Jacobson: "*Q. And so what would happen is rent would be collected and deposited into the brick-and-mortar account; correct? A. Yes. Q. And then from that account, payments would be made. Whatever maintenance needed to be paid was paid out of that brick-and-mortar account? A. You're talking about the expenses? Q. Utilities, expenses, whatever, yes. A. Mortgage payment, taxes, yes. Q. And*

VI. 2011 FINANCIALS AND CASH FLOW FORECASTS

5. At the beginning of the Receivership in December 2011 and January 2012 we worked with Dustin Barrett, Chief Financial Officer of Management Solutions, Inc. and Sharon Kimsey, accountant for Starwood Management Company to prepare a summary of the cash flows on a property by property basis to assist the Receiver in understanding the business. Mr. Barrett and Ms. Kimsey provided the property level cash flow statements for 2011 and we compiled these into a consolidated table.[20] We then did an analysis of the QuickBooks accounting records to identify interest payments to investors in 2011. We identified 5,442 checks made payable to investors in 2011 that totaled $12.4 million.[21] This work is summarized in the table below:[22]

Property Type	Rental Income	Net Cash flow	Investor Interest Paid (excluding principal and proceeds)
Multi-family	$48,766,512	($1,016,539)	
Office & Retail	$3,950,148	$41,350	
Total	**$52,716,660**	**($975,189)**	**($12,404,135)**

6. These cash flow statements, when combined into the table above, show that the properties after paying operating expenses, property taxes, mortgages and other capital expenses show a cash

Management Solutions would carve off its 6 percent management fee out of the brick-and-mortar account; correct? A. Yes. Q. And then whatever was left over would be the source of the returns that would be kind of waterfalled down to the investor LLC and then paid to the individual investors; correct? A. When you say "waterfalled down," what do you mean? Q. It would be transferred from the brick-and-mortar account to the investor LLC account. A. Yes. Q. And then ultimately paid out to investors. That was the structure; right? A. Yes." See Deposition of Wendell Jacobson, dated January 30, 2011 at pages 92:1 – 93:1.

[20] *See* Exhibit 1, spreadsheet provided by Dustin Barrett "2011 Profit & Loss Statement.xlsx" dated January 13, 2012 and see Exhibit 2, spreadsheet provided by Sharon Kimsey "PLs YE 2011.xlsx" dated January 5, 2012.
[21] *See* Exhibit 3, extract from the QuickBooks accounting records detailing interest payments to investors in 2011.
[22] *See* id. and *see* Exhibit 1, spreadsheet provided by Dustin Barrett "2011 Profit & Loss Statement.xlsx" dated January 13, 2012 and *see* Exhibit 2, spreadsheet provided by Sharon Kimsey "PLs YE 2011.xlsx" dated January 5, 2012.

deficit of approximately $1.0 million. Despite this approximately $1.0 million cash flow deficit the MSI consolidated enterprise paid returns to investors in 2011 of $12.4 million.

7. As noted in the November 2, 2012 report we found a number of spreadsheets maintained by Allen Jacobson that document the commingling of funds of the consolidated MSI enterprise.[23] These spreadsheets could be described as a management "dashboard" that Allen Jacobson would use to manage the business. The spreadsheet is physically organized into different sections as follows:[24]

"Funds In"	**"Funds Out"**		
"To Dos"	**"Collateral Opportunities"**	**"Partners Principal Return"**	
Partner Quarter End Updates			
Potential Future Investors	**Lenders**	**Quarterly Follow Up**	**Opportunities**

8. The details of these spreadsheets (summarized in the following table) show that Allen Jacobson was tracking potential sources of cash, of which a significant portion was from new or existing investors in order to meet obligations, which included interest payments to investors and the return of capital to investors.[25]

[23] *See* Example 6 starting on Page 55 of the Commingling Report.
[24] *See* the Exhibits to the Commingling Report numbered 181, 182, 183, 184, 185, 186, 187, 188,189, 190, 191 and 193, being cash management spreadsheets maintained by Allen Jacobson and located in the corporate records.
[25] *See* id.

Summary of Allen Jacobson Cash Management Spreadsheets:[26]

Spreadsheet File Name	Date of email to which attached:	Approximate Period covered:	Total "Monies potentially in"/ "funds in"	Total Cash in from Investors	Total Cash flow from Ops	Total "Monies due out"/ "funds out"	Total Cash out to Investors
Money List 5-9-09.xls	5/18/2009	May to November 2009	$8,050,000	$3,650,000	$0	($19,196,000)	($8,476,000)
Money Allocation.xls	1/2/2010	December 2009 to March 2010	$5,094,000	$3,594,000	$0	($16,124,740)	($8,552,740)
Money Allocation.xls	1/30/2010	December 2009 to March 2010	$7,006,000	$6,506,000	$0	($16,097,000)	($8,435,000)
Money Allocation.xls	2/20/2010	February 2010 to May 2010	$4,554,000	$4,054,000	$0	($17,817,000)	($10,725,000)
Money Allocation.xls	5/29/2010	May to September 2010	$4,442,000	$4,442,000	$0	($21,891,800)	($10,025,000)
Money Allocation 6-1-2010.xls	8/24/2010	August to September 2010	$3,225,000	$3,225,000	$0	($15,209,417)	($7,500,000)
Cash Money 10-18-10.xls	10/19/2010	October to December 2010	$9,561,500	$3,961,000	$0	($2,521,500)	($1,123,500)
Cash Money 10-18-10.xls	12/24/2010	December 2010	$7,500,000	$0	$0	($7,925,000)	($2,400,000)
Money Allocation 12-20-2010.xls	12/24/2010	December 2010 to April 2011	$9,050,000	$3,950,000	$0	($14,441,333)	($7,500,000)
Money Allocation 12-20-2010.xls	1/3/2011	December 2010 to April 2011	$9,162,000	$4,062,000	$0	($14,441,333)	($7,500,000)
Cash Money 10-18-10.xls	1/3/2011	December 2010 to January 2011	$10,550,182	$2,300,000	$0	($9,013,700)	($5,763,723)
Cash Money_1-6-11.xls	1/19/2011	December 2010 to January 2011	$13,567,682	$2,722,500	$0	($12,796,700)	($3,771,723)
Money Allocation 12-20-2010.xls	1/19/2011	January to June 2011	$8,192,000	$3,892,000	$0	($16,887,333)	($9,800,000)
Cash Money_1-6-11.xls	1/31/2011	December 2010 to January 2011	$13,467,682	$2,722,500	$0	($12,884,700)	($3,851,723)
Money Allocation 12-20-2010.xls	1/31/2011	January to June 2011	$13,497,000	$4,297,000	$0	($16,887,333)	($9,800,000)
Cash Money_2-1-11.xls	1/31/2011	December 2010 to January 2011	$13,717,682	$3,222,500	$0	($13,937,700)	($4,101,723)
Money_Allocation _ 2-1-2011.xls	1/31/2011	February to June 2011	$13,497,000	$4,297,000	$0	($16,887,333)	($9,800,000)
Money_Allocation _ 2-1-2011.xls	3/19/2011	February to August 2011	$19,417,000	$7,217,000	$0	($16,887,333)	($9,800,000)

[26] *See* Exhibits to the Commingling Report numbered 176 to 193, being the cash management spreadsheets maintained by Allen Jacobson and located in the corporate records.

VII. DETAILED ANALYSIS OF IMMEDIATE PERIOD PRIOR TO RECEIVERSHIP

9. The complexity and magnitude of the commingling of investor funds was extensive and pervasive. Trying to identify how ultimately the November 2011 investment of $2,145,669 from Haven Barlow was utilized is challenging due to the commingled nature of funds.

10. On or around November 1, 2011 the Barlow Corporation invested a total of $2,145,669 with MSI.[27] First American Title Company facilitated the transaction and the money was transferred from First American Title to the following MSI entities on November 2, 2011:[28]

    (i) Oak City received $680,000 from First American Title,[29]

    (ii) League 3 received $281,034.48 from First American Title,[30]

    (iii) Kamy Lakes received $680,000 from First American Title,[31]

    (iv) Council Properties received $504,634.52 from First American Title.[32]

11. As detailed in the Commingling Report of November 2, 2012 the consolidated enterprise (including Jacobson Owned Entities, MSI Affiliated Entities and MSI Owned Entities) has a complex accounting system with numerous cash transfer transactions occurring on a daily basis with no apparent business purpose.

12. The following flow chart shows the flow of funds that originated with the Barlow Corporation and demonstrates that they were commingled in various Jacobson Controlled Entities such that the ultimate disposition of the majority of those exact funds are impossible to determine.

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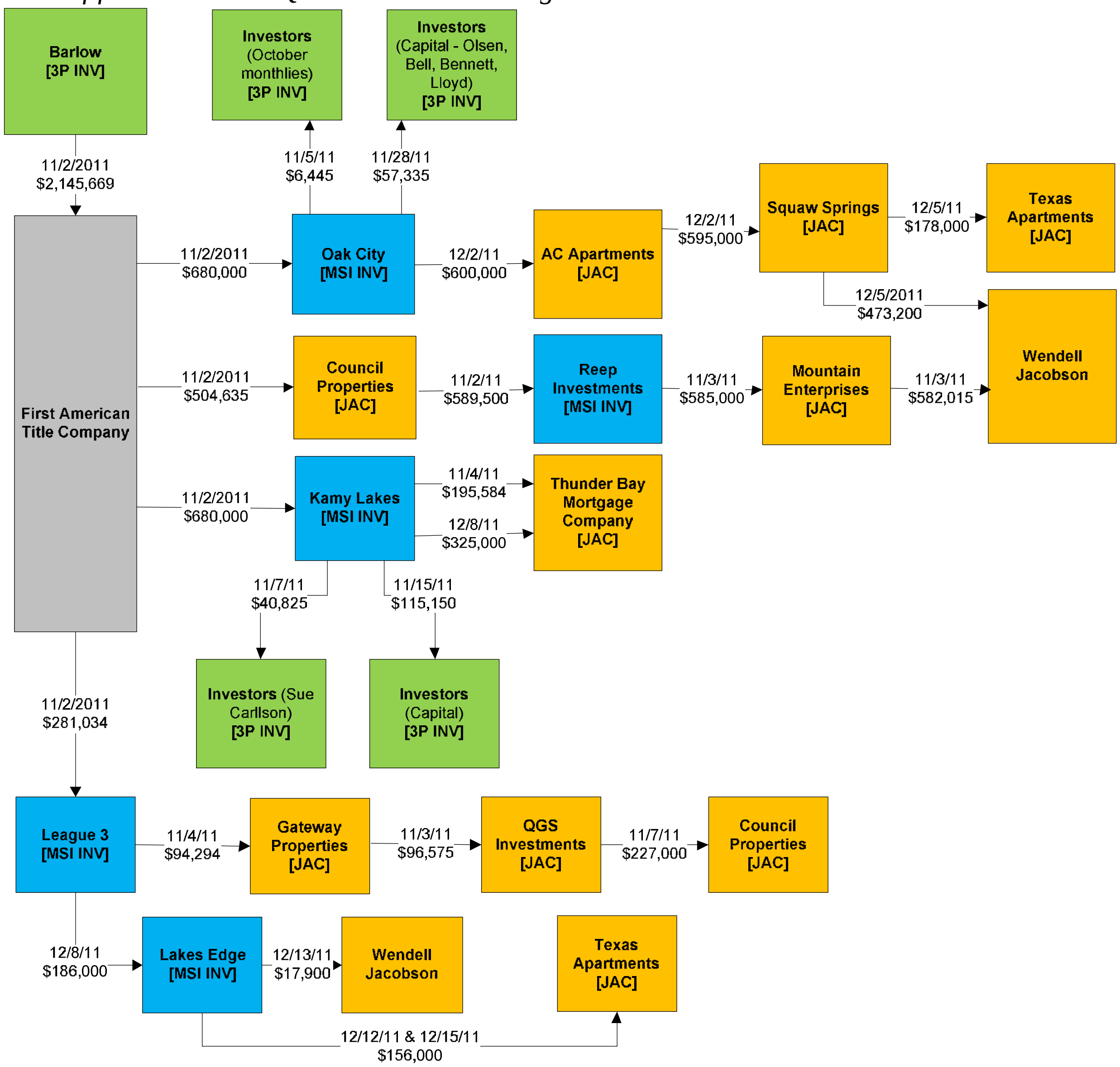
[27] *See* Exhibit 4, closing documents for investment in Stonebrook, Idaho property by the Barlow Corporation dated November 1, 2011.
[28] *See* Exhibit 5, Email from Allen Jacobson to Nicki Stears at First American Title Company dated November 2, 2011 with subject line of "Wire Info".
[29] *See* Exhibit 6, extract from the QuickBooks accounting records of Oak City.
[30] *See* Exhibit 7, extract from the QuickBooks accounting records of League 3.
[31] *See* Exhibit 8, extract from the QuickBooks accounting records of Kamy Lakes.
[32] *See* Exhibit 9, extract from the QuickBooks accounting records of Council Properties.

Flow of funds based on QuickBooks accounting records and bank statements:[33, 34]



13. To understand the ultimate disposition of the money received from the Barlow Corporation in early November 2011 it was necessary to review all of the transactions around this period. The exercise of analyzing the transactions involved extracting transactions between October 27,

[33] Parties highlighted in green are Third Party Investor Entities, those highlighted in orange are Jacobson Owned Entities, those highlighted in blue are MSI Investor Entities, those highlighted in red are MSI Property Entities and those highlighted in grey are third party entities.
[34] *See* Exhibits 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16 and 17, extracts from the QuickBooks accounting records of Oak City, League 3, Kamy Lakes, Council Properties, AC Apartments, Squaw Springs, Reep Investments, Mountain Enterprises, Wendell & Melba Jacobson, Thunder Bay, QGS Investments and Lakes Edge. *See* Exhibit 18, December 2011 bank statement for Lakes Edge Chase bank account number XXXXXX4841.

2011 and December 15, 2011 from the QuickBooks accounting records of 206 MSI managed entities.[35] This resulted in a population of 30,601 transactions for that period. From this population of transactions 8,668 represented cash transactions amounting to approximately $155 million of cash going in and approximately $154 million out of the consolidated enterprises.[36] From this population approximately $141 million of "intercompany transactions" were removed, being cash transfers between Jacobson Owned Entities, MSI Affiliated Entities and/or MSI Owned Entities.[37] The remaining $13 million of transactions represented 5,749 transactions with third parties across 196 entities.

14. Based on the descriptions and details in the QuickBooks accounting records the 5,749 transactions were categorized into three main categories and relevant sub-categories. The following table categorizes the cash transactions with third parties between October 27, 2011 and December 15, 2011:

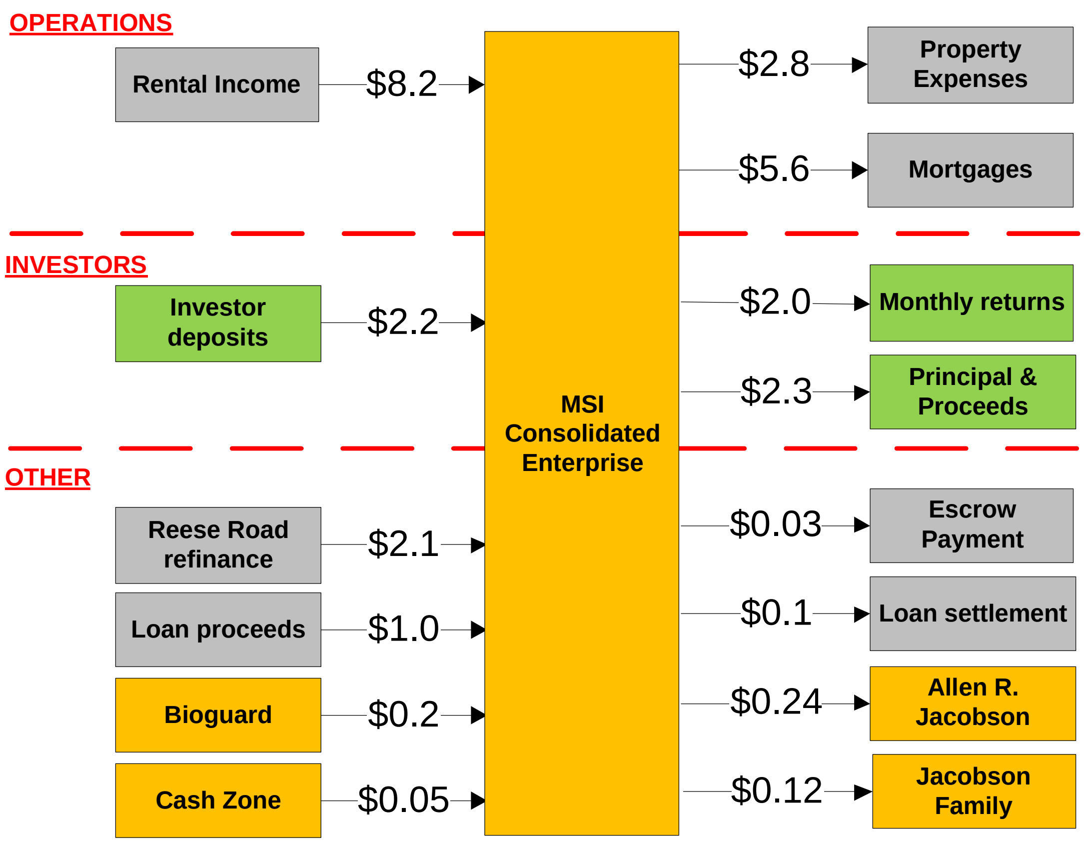
[35] For the purposes of this exercise a date prior to November 2, 2011 was selected as it was the regular practice of MSI to record check payments in QuickBooks but delay sending the checks to the payee.
[36] *See* Exhibit 19, consolidated extract of cash transactions after October 27, 2011 from QuickBooks accounting records.
[37] *See* id.

Property Operations:		
Rental Income	$8.2 million	Rents for November and December
Expenses	($2.8 million)	Payroll, landscaping, maintenance, utilities, etc.
Mortgages	($5.6 million)	Loan repayments for November and December
Sub-total for Property Operations:	***($0.2 million)***	
Investors:		
Deposits	$2.2 million	Money received from Haven Barlow
"Monthlies"	($2.0 million)	Payments made on a monthly basis to investors
"Principal and proceeds"	($2.3 million)	Capital returns to investors
Sub-total for Investors:	***($2.1 million)***	
Other transactions:		
Reese Road Refinance	$2.1 million	Loan from US Bank[38]
Loan Proceeds	$1.0 million	Cache Valley Bank and Midland Loan Services,
Bioguard	$0.2 million	Interest and capital returns
Cash Zone	$0.05 million	Interest
Escrow Payment	($0.025 million)	
Loan settlement	($0.1 million)	
Allen Jacobson	($0.245 million)	Payment made on 12/14/11
Family payments	($0.12 million)	Loans, living expenses
Sub-total for Other transactions:	***$2.9 million***	
Net total for all transactions:	**$0.6 million**	

[38] *See* Exhibit 20, draft closing statement for Reese Road refinance dated November 7, 2011.

Flow Chart summarizing the third party cash inflows and outflows:

(all amounts in millions of dollars and based on transactions in the QuickBooks accounting records)



15. The above table and flowchart demonstrate that the property operations of the business appear to operate over the period at a loss of approximately $0.2 million (see sub-total for property operations in table on previous page). During this period the main outflows, outside of operations, were $4.3 million of payments to investors ($2.0 million of monthly returns to investors and $2.3 million of principal and proceeds to investors). Thus it appears that the $2.1 million of cash received from the Barlow Corporation (the majority of the $2.2 million investor deposits) was commingled and then used along with the proceeds from the refinancing of Reese Road with US Bank ($2.1 million) to fund the $4.3 million of payments to investors.

VIII. ANALYSIS OF OPERATIONS AND INVESTOR PAYMENTS FOR SPECIFIC PROPERTIES

a. BROOKHAVEN

16. We reviewed the QuickBooks accounting records of Brookhaven and compiled the following financial summary. This summary shows that between 2007 and 2011 this property did not generate sufficient net cash flow from operations to pay the monthly 5% return to the investors.[39]

Summary of cash flows from operations and payments to investors:

Year	Net Cash Flow from Property	Interest Cash Paid to Investors	Net Cash Flow
2007	($479,976)	($120,416)	($600,392)
2008	($83,033)	($284,583)	($367,616)
2009	($213,154)	($282,500)	($495,654)
2010	($539,737)	($282,500)	($822,237)
2011	($2,217)	($47,083)	($49,300)
Total	**($1,318,117)**	**($1,017,082)**	**($2,335,199)**

17. The investors were paid approximately $1.0 million in monthly interest returns despite the cash flows from operations showing a cash outflow of $1.3 million.

18. Additionally, despite the above monthly interest payments already putting Brookhaven in an approximately $2.3 million negative cash flow position, some of the investors received an additional 15% return on their sale of interest in 2010.[40]

[39] *See* Exhibit 21, extract from the QuickBooks accounting records of the cash transactions for Brookhaven.
[40] *See* Exhibit 22, email from Allen Jacobson to Rob Wolfley, dated January 7, 2011 and *see* Exhibit 23, the Entity Spreadsheet for Wolfson, LLC.

Purchase of Brookhaven Property

19. The purchase of the Brookhaven property generated over $6.1 million in excess funds from investors that were commingled in the consolidated MSI enterprise and used for purposes other than the acquisition of the Brookhaven property.

5/1/2007	Purchase price recorded in QuickBooks[41]	$34,109,164
5/1/2007	Brookhaven actual purchase price[42]	$30,109,164
Excess amount recorded over the actual purchase price		**$4,000,000**

5/1/2007	Net purchase price paid (after the assumption of debt)	$0
6/14/2007 to 12/14/2007	Amount collected from investors for the purchase of Brookhaven[43]	$6,150,000
Excess funds collected from investors		**$6,150,000**

20. The Brookhaven property was bought on May 1, 2007 from Gerald Johnston and Joe Edwards for a contingent deferred purchase price of $500,000, due upon a third party sale, and the assumption of the mortgage debt of $29,609,164. Investors were told that the purchase price was over $34 million.[44]

21. On February 22, 2008, consistent with a second purchase agreement, Brookhaven paid a $4,000,000 fee to the sellers (Edwards Properties).[45] However, there was a side agreement such

[41] *See* Exhibit 24, the journal entry recorded in the QuickBooks accounting records of Brookhaven for the purchase of the property.
[42] *See* Exhibit 25, the sale and purchase agreement dated May 1, 2007 for Brookhaven and Exhibit 26, a signed letter from Management Solutions, Inc. to the sellers dated May 1, 2007.
[43] *See* Exhibit 21, extract from the QuickBooks accounting records of the cash transactions for Brookhaven.
[44] *See* Exhibit 24, the journal entry recorded in the QuickBooks accounting records of Brookhaven for the purchase of the property and Exhibit 42, an email from Allen Jacobson to David Steed, dated February 13, 2009.
[45] *See* Exhibit 21, extract from the QuickBooks accounting records of Brookhaven; Exhibit 27, the Brookhaven Far West bank statement for account number XXXXXX0122 dated February 29, 2008 and Exhibit 28, a version of the May 1, 2007 sale and purchase agreement between Edwards Properties and MSI.

that Edwards Properties would pay $4,000,000 to Council Properties as a fee.[46] Three days later, on February 25, 2008, we can see $4,000,000 being deposited into Council Properties from Edwards Properties and being booked as fee income.[47]

Sale of Brookhaven Property:

22. In March 2010, the property was sold back to the original owners, Gerald Johnston and Joe Edwards.[48] Again no money changed hands with the Mr. Johnston and Mr. Edwards taking on the debt. From our review of the December 2011 "Entity Sheets", maintained by MSI, it appears that only one of the seven MSI investor entities noted the sale (Wolfson, LLC).[49]

23. The investors in Wolfson were told in January 2011 that the property was sold on December 31, 2010 and these investors received a 15% return.[50] Another investor, David Steed, actually restructured his investment as a promissory note in August 2011, over a year after the property had been sold.[51]

24. As such, even though the Brookhaven property was sold and no MSI entity had any ownership interest in the property, MSI continued to pay monthly investor returns to 19 investors as though they were still invested in Brookhaven.[52]

[46] *See* Exhibit 26, May 1, 2007 letter from Management Solutions, Inc. to Edwards Properties, signed by Wendell Jacobson.

[47] *See* Exhibits 29, extract from the QuickBooks accounting records of Council Properties and *see* Exhibit 30, the Council Properties Zions bank statement for account number XXXXXX8462 dated February 29, 2008.

[48] *See* Exhibit 31, draft closing statement dated March 25, 2010 for the sale of Brookhaven Apartments; *see* Exhibit 32, letter from new owners to Gene Jacobson dated March 30, 2010; and *see* Exhibit 33, journal entry from the QuickBooks accounting records of Brookhaven recording the sale of the apartment property.

[49] *See* Exhibits 34, 35, 36, 37 and 38, being the "Entity Sheets" maintained in the MSI corporate records for Business Pros, Carvala, Inveness, Upper Muddy River and Jarustds.

[50] *See* Exhibit 22, email from Allen Jacobson to Rob Wolfley, dated January 7, 2011 and *see* Exhibit 23, the Entity Spreadsheet for Wolfson, LLC.

[51] *See* Exhibits 39, 40 and 41 being emails between David Steed and Allen Jacobson discussing a sale of Brookhaven on June 30, 2011 and the creation of a promissory note with David Steed.

[52] *See* Exhibits 12 to 16 being entity sheets for Business Pros, LLC, Carvala, LLC, Inveness, LLC, Upper Muddy River, LLC and Jarustds, LLC; *see* Exhibits 69, 70, 71, 72 and 73, being extracts from the QuickBooks accounting records of Business Pros, Carvala, Inveness, Upper Muddy River and Jarustds; and Exhibit 3, extract from QuickBooks of investor interest payments in 2011.

b. Cooper Glen

25. We reviewed the QuickBooks accounting records for the Cooper Glen property (Evers Park, Ltd.) and compiled the following financial summary. This summary shows that between 1999 and 2004 this property did not generate sufficient net cash flow from operations to pay the monthly 8.5% interest to the investor.[53]

Summary of cash flows from operations and payments to investors:[54]

Year	Net Cash In from Operations	Interest Cash Paid to Investors	Net Cash
1999 [55]	$61,327		$61,327
2000	$81,907	($257,833)	($175,926)
2001	$3,752	($221,000)	($217,248)
2002	$159,025	($220,994)	($61,969)
2003	$23,957	($220,998)	($197,041)
2004	($26,119)	($128,909)	($155,028)
Total	**$303,849**	**($1,049,734)**	**($745,885)**

26. The investors were paid over $1 million in monthly interest returns despite the cash flows from operations only supporting approximately $300,000.

27. Additionally, despite the above monthly interest payments already putting Cooper Glen in an approximately $746,000 negative cash flow position, the investor was still paid an additional 17% return on an internal sale to other MSI investors in 2004.[56] This return of capital and proceeds of $3,050,000 was funded with the contributions from new investors.[57]

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[53] *See* Exhibit 43, extract from the QuickBooks accounting records of the cash transactions for Cooper Glen and exhibit 44, extract from the QuickBooks accounting records of Jake & Tate for investor Joseph Tate.
[54] *See* id.
[55] The Cooper Glen Apartments property was purchased on November 1, 1999 for $13,450,000. This was financed by the assumption of $10,873,491 of debt and an investment of $2,600,000 from Joe Tate. See Exhibit 45, journal entry recording the purchase of Cooper Glen extracted from the QuickBooks accounting records of Cooper Glen and Exhibit 44, extract from the QuickBooks accounting records of Jake & Tate for investor Joseph Tate.
[56] *See* Exhibit 44, extract from the QuickBooks accounting records of Jake & Tate for investor Joseph Tate.
[57] *See* Exhibit 46, extract from the QuickBooks accounting records of Jake & Tate of the cash transactions of Cooper Glen investors in 2004.

c. Abbie Lakes

28. We reviewed the QuickBooks accounting records of Abbie Lakes, LLC and compiled the following financial summary. This summary shows that between 2005 and 2007 this property did not generate sufficient net cash flow to pay to the investors the annual 8% return, paid monthly, nor the gain upon the sale of an interest in the property to other investors.[58]

Summary of cash flows from operations and payments to investors:[59]

Year	Net Cash Flow from Property	Interest Cash Paid to Investors	Net Cash
2005	$94,979	($180,000)	($85,021)
2006	$189,835	($440,000)	($250,165)
2007	($63,638)	($146,667)	($210,305)
Total	**$221,176**	**($766,667)**	($545,491)

29. The investors were paid approximately $766,000 in monthly interest returns despite the cash flows from operations only supporting approximately $221,000.
30. Additionally, despite the above monthly interest payments already putting Abbie Lakes in an approximately $545,000 negative cash flow position, the investors generated an additional nearly 15% return on their sale of interest to other investors in 2007.[60]

[58] *See* Exhibits 47 and 48, extracts from the QuickBooks accounting records of the cash transactions for "Abbie Lakes" and for "Abbie Lakes Apts".
[59] *See* id.
[60] See id.

Purchase of Abbie Lakes Property:

5/1/2005	Purchase price of Abbie Lakes recorded in the QuickBooks accounting records[61]	$14,560,000
5/1/2005	Actual purchase price of Abbie Lakes[62]	$11,580,800
Excess amount recorded over the actual purchase price		**$2,979,200**

	Amount collected from investors for the purchase of Abbie Lakes[63]	$6,000,000
5/1/2005	Net purchase price (after the assumption/issuance of debt) amount actually paid[64]	$2,352,472
Net amount over-collected from investors		**$3,647,528**

31. When the property was acquired in May 2005, MSI raised $3,647,528 of investor funds over and above the net purchase price. These excess funds were ultimately commingled in the consolidated MSI enterprise and used for purposes other than for the benefit of the investors in Abbie Lakes.[65]

d. Reserve at Abbie Lakes

32. We reviewed the QuickBooks accounting records of Reserve at Abbie Lakes, LLC and compiled the following financial summary. This summary shows that between 2005 and 2011 this property did not generate sufficient net cash flow to pay to the investors the annual 4% - 9% return, paid monthly, nor the gain upon the sale of interest to other investors.[66]

[61] *See* Exhibit 49, journal entry recording the purchase of Abbie Lakes extracted from the QuickBooks accounting records of "Abbie Lakes".
[62] See Exhibit 50, closing statement for Abbie Lakes dated May 1, 2005.
[63] *See* Exhibit 47 extract from the QuickBooks accounting records of the cash transactions for "Abbie Lakes" and Exhibit 49, journal entry recording the purchase of Abbie Lakes extracted from the QuickBooks accounting records of "Abbie Lakes".
[64] *See* Exhibit 50, closing statement for Abbie Lakes dated May 1, 2005.
[65] *See* Exhibit 47 extract from the QuickBooks accounting records of the cash transactions for "Abbie Lakes"
[66] *See* Exhibits 51 and 52, extracts from the QuickBooks accounting records of the cash transactions for "Reserve at Abbie Lakes" and for "The Reserve".

Summary of cash flows from operations and payments to investors:[67]

Year	Net Cash Flow from Property	Interest Cash Paid to Investors	Net Cash
2005	$173,075	($39,557)	$133,518
2006	($418,455)	($355,360)	($773,815)
2007	($194,311)	($474,345)	($668,656)
2008	$110,403	($656,538)	($546,135)
2009	$587,280	($617,694)	($30,414)
2010	($11,399)	($602,886)	($614,285)
2011	$577,393	($617,962)	($40,569)
Total	**$823,986**	**($3,364,342)**	**($2,540,356)**

33. The investors were paid approximately $3,364,000 in monthly interest returns despite the cash flows from operations only supporting approximately $823,000.

34. Additionally, despite the above monthly interest payments already putting Reserve at Abbie Lakes in an approximately $2,540,000 negative cash flow position, the three investors that have sold their interest in the property received an additional return on their sale of interest to other investors.[68]

[67] *See* id.
[68] *See* id.

Purchase of Reserve at Abbie Lakes Property:

8/2/2005	Purchase price of Reserve at Abbie Lakes recorded in the QuickBooks accounting records[69]	$28,080,000
8/2/2005	Actual purchase price of Reserve at Abbie Lakes[70]	$18,721,200
Excess amount recorded over the actual purchase price		**$9,358,800**

2005 – 2011	Amount collected from investors related to Reserve at Abbie Lakes[71]	$9,931,096
8/2/2005	Net purchase price (after the assumption/ issuance of debt) amount actually paid[72]	$1,128,270
Net amount over-collected from investors		**$8,802,826**

35. MSI raised $8,802,826 of investor funds were raised over and above the net purchase price. These excess funds were ultimately commingled in the consolidated MSI enterprise and used for purposes other than for the benefit of the investors in Reserve at Abbie Lakes.[73]

[69] *See* Exhibit 53, journal entry recording the purchase of Reserve at Abbie Lakes extracted from the QuickBooks accounting records of "Reserve at Abbie Lakes".
[70] *See* Exhibit 54, closing statement for Reserve at Abbie Lakes dated August 2, 2005.
[71] As investors came into Reserve at Abbie Lakes continually from 2005 – 2011, this figure represents the investor contributions for all investors aside from the only three investors that received principal and gain (Eran Call, David K. Richards and Cape Trust). *See* Exhibit 51 extract from the QuickBooks accounting records of the cash transactions for "Reserve at Abbie Lakes", Exhibit 53, journal entry recording the purchase of Reserve at Abbie Lakes extracted from the QuickBooks accounting records of "Reserve at Abbie Lakes" and Exhibit 68, extract from the QuickBooks accounting records for investor capital accounts.
[72] *See* Exhibit 54, closing statement for Reserve at Abbie Lakes, dated August 2, 2005, Exhibit 55, Promissory Note for $15,064,495 dated August 2, 2005 and Exhibit 56, Promissory Note for $2,528,435 dated August 2, 2005.
[73] *See* Exhibit 51 extract from the QuickBooks accounting records of the cash transactions for "Reserve at Abbie Lakes" and Exhibit 53, journal entry recording the purchase of Reserve at Abbie Lakes extracted from the QuickBooks accounting records of "Reserve at Abbie Lakes".

e. STONEBRIDGE

36. We reviewed the QuickBooks accounting records of Stonebridge and compiled the following financial summary. This summary shows that during the four month period in 2006, from March 31, 2006 through July 31, 2006, this property did not generate sufficient net cash flow to pay to the investors the annual 5% return, paid monthly, nor the gain upon the sale of interest to other investors.[74]

Summary of cash flows from operations and payments to investors:[75]

Year	Net Cash Flow from Property	Interest Cash Paid to Investors	Net Cash
2006	$197,451	($243,597)	($46,146)

37. The investors were paid approximately $243,000 in monthly interest returns despite the cash flows from operations only supporting approximately $197,000.

38. Additionally, despite the above monthly interest payments already putting Stonebridge in an approximately $46,000 negative cash flow position, the investors received an additional 10% return on their sale of interest to other MSI investors in 2006. As these initial investors were only invested in Stonebridge for three months at most (as they exited their investment related to the property on and around June 30, 2006), the 10% return equates to a 40% annualized return.[76]

[74] *See* Exhibit 57 extract from the QuickBooks accounting records of the cash transactions for Stonebridge.
[75] *See* id.
[76] *See* id.

Purchase of Stonebridge:

3/31/2006	Purchase price of Stonebridge recorded in the QuickBooks accounting records[77]	$19,500,000
3/31/2006	Actual purchase price of Stonebridge[78]	$11,100,000
Excess amount recorded over the actual purchase price		**$8,400,000**

	Amount collected from investors for the purchase of Stonebridge[79]	$19,487,735
3/31/2006	Net purchase price (after the assumption/issuance of debt) amount actually paid[80]	$11,100,000
Net amount over-collected from investors		**$8,387,735**

39. MSI raised $8,387,735 of investor funds were raised over and above the net purchase price. These excess funds were ultimately commingled in the consolidated MSI enterprise and used for purposes other than for the benefit of the investors in Stonebridge.[81]

[77] *See* Exhibit 58, journal entry recording the purchase of Stonebridge extracted from the QuickBooks accounting records of Stonebridge. See Exhibit 60, closing statement for Stonebridge dated March 31, 2006 between a Matthew Nielson entity, Black Cliffs Investments, LLC and a Wendell Jacobson entity, Rock Bridge Apts., LLC
[78] *See* Exhibit 59, closing statement for Stonebridge dated March 31, 2006 between Columbus Stonebridge LLC and a Matthew Nielson entity, Rock Bridge, LLC. See Exhibit 61, extract from the QuickBooks accounting records of Thunder Bay and Arboretum showing cash transactions for purchase of Stonebridge.
[79] *See* Exhibit 57 extract from the QuickBooks accounting records of the cash transactions for Stonebridge.
[80] *See* Exhibit 59, closing statement for Stonebridge dated March 31, 2006 between Columbus Stonebridge LLC and a Matthew Nielson entity, Rock Bridge, LLC.
[81] *See* Exhibit 57 extract from the QuickBooks accounting records of the cash transactions for Stonebridge.

f. STONEBROOK IDAHO

40. We reviewed the QuickBooks accounting records of Stonebrook Idaho, LLC and compiled the following financial summary. This summary shows that between 2006 and 2011 this property did not generate sufficient net cash flow from the property to pay the 6% monthly interest payments to the investors.[82]

Summary of cash flows from operations and payments to investors:[83]

Year	Net Cash Flow from Property	Interest Cash Paid to Investors	Net Cash Flow
2006	$31,559	($25,000)	$6,559
2007	($79,206)	($166,609)	($245,815)
2008	$40,480	($162,500)	($122,020)
2009	$116,348	($162,500)	($46,152)
2010	$209,731	($177,271)	$32,460
2011	$135,441	($169,166)	($33,725)
Total	**$454,353**	**($863,046)**	**($408,693)**

41. Between 2006 and 2011 the investors were paid approximately $863,000 in monthly interest returns despite the cash flows from operations only supporting approximately $454,000.

42. Additionally, despite the above monthly interest payments already putting the Stonebrook property in an approximately $408,000 negative cash flow position, the investors who have sold their investment were still paid an additional 7.44% return on an internal sale to Haven Barlow in 2011 (see Section VIII).[84]

[82] *See* Exhibit 62, extract from the QuickBooks accounting records of the cash transactions for Stonebrook, Idaho.
[83] *See* id.
[84] *See* id. and Exhibits 63 and 64, being the entity sheets for MSI Investor entities, Kamy Lakes and Oak City.

Purchase of Stonebrook Property:

1/4/2007	Purchase price recorded in QuickBooks[85]	$6,545,000
1/4/2007	Stonebrook actual purchase price[86]	$5,545,000
Excess amount recorded over the actual purchase price		**$1,000,000**

1/4/2007	Net purchase price paid (after the assumption of debt)[87]	$1,499,457
10/12/2006 to 11/15/2006	Amount collected from investors for the purchase of Stonebrook[88]	$3,250,000
Excess funds collected from investors		**$1,750,543**

43. When the property was acquired in January 2007 they raised approximately $1,750,000 of investor funds over and above the net purchase price. These excess funds were ultimately commingled in the consolidated MSI enterprise and used for purposes other than for the benefit of the investors in Stonebrook.[89]

[85] *See* Exhibit 65, journal entry recording the property purchase from the QuickBooks accounting records of Stonebrook, Idaho.
[86] *See* Exhibit 66, closing statement for Stonebrook, Idaho dated January 4, 2007.
[87] *See* id.
[88] *See* Exhibit 62, extract from the QuickBooks accounting records of the cash transactions for Stonebrook, Idaho and Exhibit 67, closing documents for investment from David Richards.
[89] *See* Exhibit 62, extract from the QuickBooks accounting records of the cash transactions for Stonebrook, Idaho.

IX. CONCLUSION

44. The report contained herein summarizes my analysis and presents my observations based upon the work I have performed to date. I reserve the right to modify or supplement this report as necessary as additional documents become available.

Very truly yours,

This report has been prepared by:

Gerald Fujimoto

Gerald Fujimoto

Deloitte Financial Advisory Services LLP