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March 30, 2007

Michael A. Grassmueck
The Grassmueck Group
P.O. Box 3649
Portland, Oregon 97208

Re: SEC v. C. Wesley Rhodes, Jr. et al

**FORENSIC ACCOUNTANTS' REPORT
(SECOND REPORT OF RECEIVER – EXHIBIT ONE)**

BACKGROUND

The attached Forensic Accountants' Report (the "Report") details the findings resulting from our engagement as forensic accountants for Michael A. Grassmueck, Receiver, in regards to the following case citation:

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff

v.

C. WESLEY RHODES, JR., RHODES ECONOMETRICS, INC., THE RHODES
COMPANY, and RESOURCE TRANSACTIONS, INC.

Defendants.

Case No. CV06-1353-MO

Throughout this Report and its attachments the terms "Estate" or "The Rhodes Entities" refer collectively to Rhodes Econometrics, Inc., The Rhodes Company, Resource Transactions, Inc., Crossed Flags Farm, LLC, Corvette Specialties, Inc., Northwest Muscle Cars, LLC, Professional Practice Planning Services and their subsidiaries and affiliates, unless otherwise indicated.

The receivership was authorized by the United States District Court, District of Oregon on September 21, 2006. The receivership was charged with conducting an accounting of the assets and liabilities of The Rhodes Entities.

The attached Report details our scope of responsibilities, the actions taken by **financialforensics®** and other members of the Receiver's Team pursuant to execution of receivership responsibilities, and the financial results of our forensic accounting analysis.

This Forensic Accountants' Report has an effective date of March 30, 2007 and has been under continuous construction since the authorization of the receivership. This Report hereby incorporates by reference previously filed Receiver reports unless indicated otherwise.

The forensic accounting investigation is ongoing and there are multiple data requests still outstanding. It is the Receiver's and financialforensics'® intention to issue a supplemental accounting once the requested data is made available.

FORMAT OF THE FORENSIC ACCOUNTANTS' REPORT

The Report has been constructed to facilitate the Court's review by organizing the contents as follows:

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EXECUTIVE SUMMARY

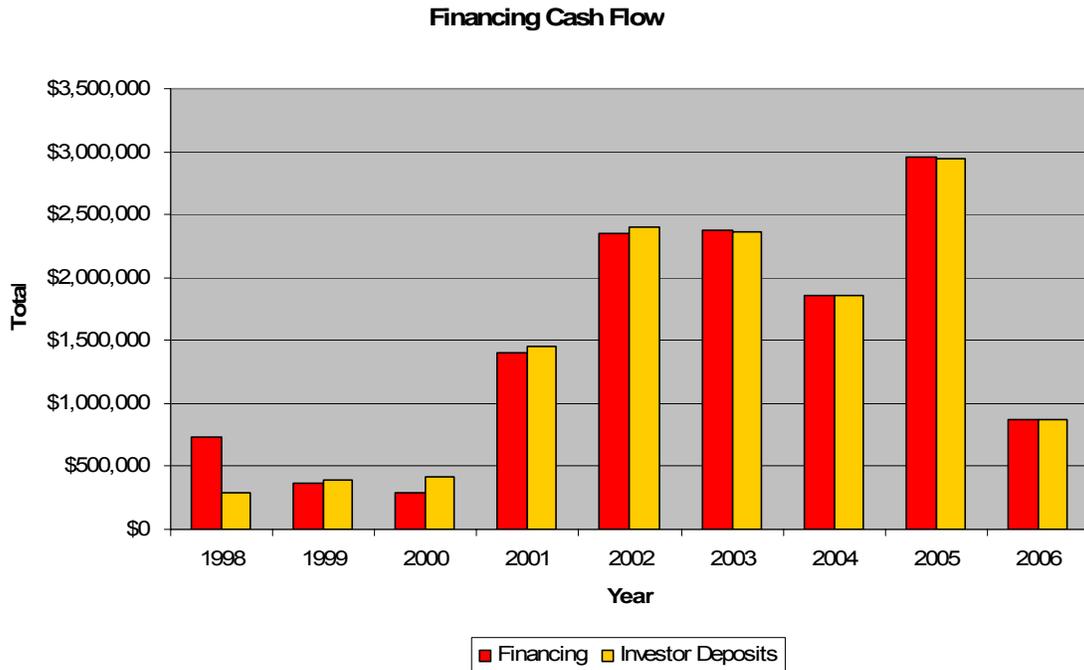
The Executive Summary contains a précis of our actions and is supported by the remainder of the Report body. It delivers the succinct elements of our findings, with supporting details contained in the pertinent attached exhibits.

VISUAL HIGHLIGHTS

The following visual highlights convey perspective on the nature and scope of our work with regard to the Estate. The graphs are provided in order for the reader to obtain the most time-effective perspective on the nature and timing of funds flow within The Rhodes Entities during the period of this accounting.

Cash Inflows by Year

The following graph illustrates the consolidated Financing Cash Flow for The Rhodes Entities spanning the period of this accounting. Financing Cash Flows are typically comprised of changes in Shareholder's Equity or Long-Term Liabilities. During the period of this accounting, "private fund" Investor Deposits (a liability) accounted for the primary source of Financing Cash Inflows.



As indicated in the graph above, Financing Cash Flows increased dramatically from the years 2000 through 2002. This increase is entirely attributable to the increase in net Investor Deposits.¹ Net Investor Deposits are inflows from investors less distributions to

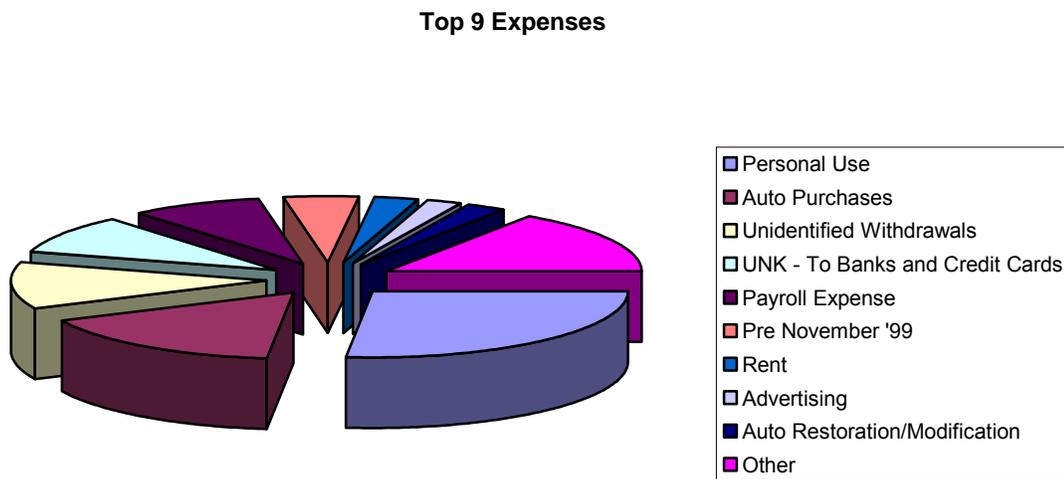
¹ Investor Deposits do not include amounts that were deposited directly with a financial institution (e.g. Charles Schwab, Ameritrade) in the name and under control of the investor. Investor Deposits, as referred to in this accounting, include those monies that were intended for a "private

investors. During the same period, identified gross Investor Deposits exceeded \$27 million.

Combined Operating and Investing Cash Flows were negative for every year except one spanning this same period. In essence, The Rhodes Entities were consistently operating at a net loss.

Top 9 Expenses

The following graph categorizes the relative size of the Top 9 Expenses comprising all The Rhodes Entities' expenses during the period of the accounting; all "other" expenses are aggregated in order to reflect 100% of disbursements.



The Top 9 Expenses indicated above are specifically identified as follows:

Category	Total	% Total	Cum %
Personal Use	\$5,448,259	26.78%	26.78%
Auto Purchases	3,286,075	16.15%	42.93%
Unidentified Withdrawals	2,323,310	11.42%	54.35%
UNK – To Banks & Credit Cards	1,932,576	9.50%	63.84%
Payroll Expense	1,694,565	8.33%	72.17%
Pre November '99	942,884	4.63%	76.81%
Rent	579,301	2.85%	79.65%
Advertising	490,786	2.41%	82.07%
Auto Restoration/Modification	467,103	2.30%	84.36%
Other	3,181,927	15.64%	100.0%
	<u>\$20,346,787</u>	<u>100.0%</u>	

fund" investment OR that investors intended to be deposited with a financial institution in their name but never were.

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March 30, 2007

The table above reflects the respective proportion of the Top 9 expenses. For example, Personal Uses aggregate to 26.78% of Total Expenses, derived from \$5,448,259 divided by \$20,346,787, the total of all The Rhodes Entities' expenses during the period of our accounting.

Personal Use – These amounts were specifically identified as funds diverted for the personal benefit of C. Wesley Rhodes, Jr. and/or his family. These expenditures include home improvements, transfers to personal bank accounts, transfers to personal and family investment accounts, mortgage payments, payments for family weddings and related items.

The following table identifies the Personal Use expenditures by category and year.

Personal Use	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Furniture and Fixtures					\$13,850	\$32,815	\$26,054	\$33,145		\$105,864
Insurance				\$1,746				1,036	\$23,373	26,155
Life Insurance	\$6,000		\$2,250	3,499	20,623	3,749	40,749	55,525	2,500	134,896
Loan & Credit Card Payments		\$4,016	131,171	134,681	255,802	108,493	666,498	592,061	178,512	2,071,234
Medical								528		528
Mortgage						47,827	45,634	298,447	26,620	418,529
Other				5,545	31,046	102,701	142,178	87,050	24,268	392,788
Phone								2,542	7,690	10,232
Property Improvements/Maintenance				15,586	155,570	130,668	240,410	226,482	74,731	843,447
Property Taxes								9,338		9,338
Transfers to Bank Accounts			48,000	319,020	215,037	19,083	121,100	182,850	35,800	940,890
Transfers to Investment Accounts		189,400	43,703	184,744	60,802					478,649
Utilities			207	320			2,500	1,288	11,396	15,712
	\$6,000	\$193,416	\$225,330	\$665,141	\$752,729	\$445,336	\$1,285,124	\$1,490,293	\$384,891	\$5,448,259

FINDINGS

The following items highlight the key findings that surfaced during the construction and analysis of The Rhodes Entities financial and accounting records. More details can be found in the remainder of this report.

- The Rhodes Entities received over \$27,335,000 of “private fund” investor deposits during the period of this accounting.
- The Rhodes Entities distributed over \$14,341,000 to “private fund” investors during the period of this accounting. These distributions were often made irrespective of the source of funds and many of the distributions pertained to deposits made prior to 1998.
- At the appointment of the Receiver, The Rhodes Entities possessed \$2,743,684 in cash and investment accounts.
- Over \$5,448,000 was expended from The Rhodes Entities for the personal use of C. Wesley Rhodes, Jr. and/or his family during the period of this accounting.
- In preparing The Rhodes Entities' accounting, 167 vehicle-related disbursements have been identified, totaling \$3,286,075.
- Nominal, if any, meaningful financial records were available for The Rhodes Entities. Accounting records were only available for two of The Rhodes Entities, and those

were incomplete and erroneous. No financial records were provided for three of The Rhodes Entities, including the entity predominantly handling the “private fund” investor monies.

CONCLUSIONS

The following items highlight the key conclusions that resulted from the construction and analysis of The Rhodes Entities' records. More details can be found in the remainder of the report.

- Mr. Rhodes was negligent with respect to keeping even primitive financial records for most entities included in this accounting. Mr. Rhodes' conduct reveals that he either failed to preserve even primitive records for various investors, or that he has not produced such records.
- Receipts and funds flow have been indiscriminately commingled among the various Rhodes Entities.
- Throughout the period of this accounting, the net amount due from The Rhodes Entities to “private fund” investors significantly exceeded the actual amount that The Rhodes Entities held in cash and investment accounts.
- The periodic statements issued to “private fund” investors were largely contrived. There is no evidence that income and/or changes in investment value occurred as purported on these statements. Furthermore, The Rhodes Entities did not hold sufficient investments to support the purported account balances. As such, these statements are by and large fictitious and not reflective of actual investment balances for the “private fund” investors.
- Our investigation of The Rhodes Entities has revealed indicia of a Ponzi Scheme including, but not limited to; initial investors are paid with subsequent investors' money, masquerading as some type of investment, unrealistic returns, and payoffs are made from the pool of investor funds while the remainder is siphoned into operators' pockets.

End of Section

UNIQUE FACTS AND CIRCUMSTANCES

Each Receivership contains unique traits that impact the investigation approach, the forensic techniques considered and applied, and the reporting to the Court. The following ***unique facts and circumstances*** shaped the environment of this receivership and are specifically identified to apprise the reader of their application.

The unique facts and circumstances described below pervade the financial reporting and analysis contained in this report. Consequently, the reader is cautioned to read this report with respect to the following conditions.

IDENTIFICATION AND ANALYSIS OF RECORDS

Upon taking possession of the Rhodes Econometrics' offices, the Receiver's Team performed a cursory review of all records contained on the premises. The Team specifically sought out records pertaining to accounting, investors, legal communications, assets, and other related matters. These records consisted of both physical documents and computer files. All pertinent records and data were reviewed in detail as appropriate during investigation and administration of the Estate.

The universe of records is constantly growing as the forensic accounting and other investigations continue. Throughout their duration, Mr. Rhodes failed to maintain (or produce) adequate records for most of the receivership entities. Therefore, the Receiver's Team has been in continuous contact with outside parties to obtain the necessary records in order to make informed decisions regarding the Estate.

To date, it is estimated that the Receiver's Team has reviewed in excess of 200 banker's boxes of records, or over 500,000 documents. This does not include the thousands of electronic files that the Team reviewed. Throughout this investigation the Receiver's Team has utilized *Full-and-False-Inclusion*² testing to insure that the "appropriate" universe of data has been included.

SCOPE OF THIS ACCOUNTING

Entities of Accounting

Refer to the Preliminary Report of Receiver dated October 25, 2006 for a detailed discussion pertaining to the parties and entities subject to this receivership. At this time the Receiver has identified over 20 different entities that are either subject to the receivership or materially associated with Mr. Rhodes financial dealings.

The following receivership entities are included in this accounting:

- **The Rhodes Company** – Consulting company owned by C. Wesley Rhodes, Jr.

² Full-and-False-Inclusion tests ensure that no extraneous data is included, and that no appropriate data is excluded from the investigation.

- **Rhodes Econometrics, Inc.** - “Rhodes Econometrics”. Investment management services company owned by C. Wesley Rhodes, Jr.
- **Professional Practice Planning Services, Inc.** – “PPPS, Inc.”, “PPPS” or “PPPS Partnership”. Current entity status undefined. Two bank accounts under the name of PPPS, Inc. were opened in late 1998. These accounts received the bulk of “private fund” investor deposits for the period under this accounting. These are often referred to as the “PPPS Investors”.

There is evidence that an entity identified as PPPS was in existence prior to the period of this accounting. The Receiver has received records indicating that investor monies were deposited into accounts titled “PPPS Investment Account #1001” and “PPPS Investment Account #1002” dating back to the early 1990s.

- **Crossed Flag Farm, LLC** – “Crossed Flags Farm”. Entity owned by C. Wesley Rhodes, Jr.
- **Corvette Specialties, Inc.** – “Corvette Specialties”. Pursuant to a stipulated agreement, Corvette Specialties (Dean Sprecher) was released from the TRO and selected assets were unfrozen.
- **Northwest Muscle Cars, LLC** – “Northwest Muscle Cars” and “NWMC, LLC”. Name changed to Northwest Collector Cars, LLC on December 28, 2005.
- **Resource Transactions, Inc.** – “Resource Transactions” or “RTI”. Received “Private Fund” investor monies after PPPS ceased operations in late 2005. Northwest Collector Cars, LLC listed as the registered agent.

Throughout this report and its attachments, the terms “Estate” or “The Rhodes Entities” refer collectively to the aforementioned entities.

The only entity in receivership that was not included in the accounting is Dollhouse Ventures, LLC. It is apparent that Dollhouse Ventures, LLC has minimal, if any, assets remaining. Furthermore, sparse records were available pertaining to any current transactions for the entity. As such, it was determined that it would not be an efficient use of receivership resources to include this entity in the accounting.

As mentioned above, the Receiver has identified numerous entities that were not included in the receivership or covered under the Temporary Restraining Order. As such, these entities are not included in this accounting. However, the Receiver continues to diligently monitor the operations and financial details of these entities as the Estate may have a financial claim against them. For example, it is understood that Estates in Miniature, LLC is the successor entity to Dollhouse Ventures, LLC. As such, the Receiver has been involved in financial decisions regarding the operations and disposition of assets for Estates in Miniature.

Financial Horizon

The period of this accounting spans January 1, 1998 through September 30, 2006, in excess of eight and a half years. Although there is evidence that “private fund” investor monies were collected prior to 1998, Mr. Rhodes’ actions and the document retention policies of various financial institutions prevent meaningful analysis prior to 1998.

The Receiver has identified approximately fifty-seven bank and investment accounts during the course of this investigation (excluding investors’ accounts). Twenty-three of these accounts are included in the scope of this accounting. The remaining accounts were held by Mr. Rhodes, his family, or entities not included within the scope of this receivership.

DEARTH OF FINANCIAL RECORDS

Mr. Rhodes was negligent with respect to keeping even primitive financial records for most entities included in this accounting. Mr. Rhodes’ conduct reveals that he either failed to preserve even primitive records for various investors, or that he has not produced such records. Consequently, the Receiver has been compelled to undertake a massive and costly reconstruction from 3rd party records.

The following table summarizes The Rhodes Entities’ financial records that were available to the Receiver upon appointment or subsequently made available by the Defendants.

Entity	Available Records
The Rhodes Company	Incomplete and erroneous accounting files. Incomplete bank statements and transaction documents. Erroneous tax returns.
Rhodes Econometrics	Incomplete and erroneous accounting files. Incomplete bank statement and transaction documents. Erroneous tax returns.
PPPS	None
Crossed Flags Farm	One tax return provided by external CPA.
Corvette Specialties	Incomplete bank statements and transaction documents. No books or related records.
Northwest Muscle Cars	None
Resource Transactions	None

As illustrated above, the only records provided to the Receiver were incomplete and/or erroneous. Only two of the entities had any type of books and records and there were no books or records for the deposit and withdrawal activity of “private fund” investor monies. Consequently, there were virtually no reliable financial statements available to the Receiver for The Rhodes Entities.

PREPARATION OF THE ACCOUNTING

Given the Defendants inability, or unwillingness, to produce any meaningful financial records for The Rhodes Entities, **financialforensics**® was compelled to execute a combination of actions including:

- ❑ Communications with all known financial institutions in attempt to determine the universe of bank and investment accounts held by The Rhodes Entities and Charles Wesley Rhodes, Jr. Subsequent communications with financial institutions to determine the duration of accounts and availability of related records.
- ❑ Issuance of a multitude of subpoenas and other requests to financial institutions and various vendors to obtain bank statements, deposit details, withdrawal details and other financial records as pertinent to the accounting.
- ❑ Due to the significant amount of commingling and nature of the transaction patterns, the Receiver Team was compelled to issue several successive rounds of subpoenas to obtain additional transaction details. Each round of subpoenas typically included a response time ranging from two to six weeks, greatly extending the time necessary to complete this accounting.

For example, it was commonplace for a cancelled check to contain only an account number or just the name of a financial institution and no other identifying data. As such, additional subpoenas were issued to the receiving financial institution to determine the purpose of the withdrawal and/or the beneficiary.

- ❑ As discussed above, no books or records were available for five of the seven Rhodes Entities. Therefore, bank statement transactions were entered into Excel spreadsheets to begin the accounting process. Separate spreadsheets were developed for each bank account. Once additional deposit or withdrawal details were received from financial institutions, these items were used to refine the transaction database in Excel. As sufficient information was obtained, transactions were categorized into the appropriate balance sheet or income statement categories.
- ❑ Once the Excel spreadsheets were populated and refined, as reasonable at this time, the data was formatted so it could be imported into a QuickBooks® file for the respective entity. A separate QuickBooks® file was developed for each of The Rhodes Entities.
- ❑ Additional data obtained during the course of our investigation (such as data from investors, vendor information and loan payment schedules) was used to further refine and categorize the transactions within the respective QuickBooks® files.
- ❑ Incomplete and erroneous QuickBooks® files were received for The Rhodes Company and Rhodes Econometrics. These files required review and reclassification of numerous transactions as fund transfers were erroneously recorded as revenue or shareholder payables. Some of the bank account activity for these two entities required complete reconstruction due to the numerous

misstatements contained within.

- Given the inordinate amount of commingling amongst the various Rhodes Entities, reconciliation of inter-company receivables/payables was a daunting task. In addition to cash transfers, there were numerous instances where one entity paid the expenses of a different Rhodes Entity.
- Once the respective QuickBooks® files were reasonably refined, as feasible given the data available at this time, financial statement reports were produced from the files. These financial statement reports were then used to prepare the consolidating schedules and, ultimately, the Consolidated Balance Sheet, Income Statement and Statement of Cash Flows for The Rhodes Entities. The Consolidated Financial Statements and related worksheets are attached in their entirety as Exhibit A to this report.
- All Excel files were exported to database management software to create a comprehensive database of all receivership transactions under the accounting. This database facilitated select forensic analysis as well as tracing of selected transactions.

financialforensics® and the Receiver Team made every effort to produce a meaningful accounting in the most efficient manner. For example, Dollhouse Ventures, LLC and related entities were excluded from the accounting due to the high volume of low dollar transactions. Additionally, details for transactions under \$1,000 were typically not requested from financial institutions for cost-effectiveness. Regardless of these and other efforts, the overall lack of financial records required a complete reconstruction of the books and records, a time and resource intensive process.

There are currently subpoenas and other data requests currently outstanding. It is the Receiver's and financialforensics'® intention to issue a supplemental accounting once the requested data is made available.

COMMINGLING

Receipts and funds flow have been indiscriminately commingled (definitions below) among the various Rhodes Entities.

- **Commingling** - In the context of securities, this involves mixing customer-owned securities with brokerage firm-owned securities. This process is referred to as rehypothecation, which is the use of customers' collateral to secure their loans. This is legal with customer consent, although some securities and collateral must be kept separately.³
- **Commingle** – To put together in one mass; e.g. to combine funds or properties into common fund or stock.⁴

³ Campbell R. Harvey's "Hypertextual Finance Glossary," Duke University, 2003.

⁴ Black's Law Dictionary, (West Publishing Co. – St. Paul, MN), 1990, page 271.

- **Commingling of Funds** – Act of fiduciary in mingling funds of his beneficiary, client, employer or ward with his own funds. Such act is generally considered to be a breach of his fiduciary relationship. May be applied to a lawyer who mixes client's funds with his own and as a result is subject to disciplinary action under Model Rules of Professional Conduct.⁵

Examples of commingling within The Rhodes Entities include the following.

- On at least 2 separate occasions Mr. Rhodes acknowledged that when he received receipts from either investor clients or consulting clients that he often made no effort to deposit the funds into the correct entity.
- Mr. Rhodes routinely made deposits (as requested from Rhodes Econometrics, Inc. employees) from various sources into accounts requiring funds in order to keep Rhodes Econometrics, Inc. and the Rhodes Company in a positive cash position. No attempt was made by Mr. Rhodes to maintain a proper accounting between the entities.
- Mr. Rhodes frequently used investor funds to pay down his various personal and business credit lines. These credit lines were often linked to his personal bank accounts to cover overdraft positions. As such, transaction tracing often required the review of two to four separate accounts to determine the ultimate disposition of funds.
- Funds often passed through multiple bank accounts thereby concealing the origin of said funds. Mr. Rhodes transferred funds between accounts and entities indiscriminately. As such, this accounting required an exhaustive analysis of these transfers and the resultant amounts due to/from the various entities.

Page 12 of Exhibit A to this report illustrates the magnitude of intercompany transfers. As noted under the "combined" amounts, in excess of \$9,500,000 was transferred from the PPS' bank accounts to other entities during the period of this accounting.

The commingling activity as discussed above was prevalent throughout the period of this accounting. However, this activity became more rampant in the later years as both the number of entities in existence and dollars received from "private fund" investors increased.

VIOLATIONS OF THE COURT'S ORDERS

Mr. Rhodes' repeated violations of the Court's orders have resulted in unnecessary hardships in preparation of this accounting. These violations can be categorized as follows:

- Failure to produce records in a timely manner, or at all
- Production of incomplete, erroneous or fraudulent records

⁵ Ibid.

- Possible destruction of records
- Providing Receiver with false statements regarding the availability of records
- Failure to preserve assets covered by Court Order

Examples of these transgressions include, but are not limited to:

- Soon after the TRO was entered, Mr. Rhodes actively removed his names from various bank accounts and assisted Mrs. Rhodes (his wife) in withdrawing funds from accounts in which he had an interest. For example, Mr. Rhodes disclosed an additional bank account to the Court on September 29, 2006. However, prior to disclosure of this account, Mr. Rhodes removed himself as a signer on the account. On September 28, 2006, one day before the account was disclosed Mrs. Rhodes withdrew \$74,068.31 from the account (\$69,068.31 in a cashier's check payable to Anne Rhodes and \$5,000 in cash). The remaining balance of \$3,843.95 was transferred to the Rhodes' personal checking account on October 2, 2006.
- Mr. Rhodes lied on multiple occasions about the existence of investor information in the custody of his long-time outside secretarial service. Mr. Rhodes' deliberate secreting of information violated his duty to the Court.

The Receiver discovered its existence through forensic investigation. The discovered source comprised more than 2,800 Microsoft® Word and related files of investor records built over many years. ***These files contained virtually every "private fund" investor statement prepared and issued dating back to late 1998.*** Such files comprise the ONLY such source available to date.

- On October 2, 2006, Mr. Rhodes and the outside secretarial service undertook the task of recreating "private fund" investor activity utilizing the investor statements in their possession. There is testimony on record that Mr. Rhodes was in possession of the resultant investor lists in addition to the records utilized to complete this task.

The Receiver and his attorney made multiple requests of Mr. Rhodes' attorney, Mr. Michael O'Connor, that these lists and related documents be produced. Despite the Receiver's and his counsel's repeated requests of Mr. O'Connor the information was not provided, and Mr. O'Connor subsequently advised the Receiver on February 6, 2007 *"...the requested documents no longer exist."* thus suggesting its spoliation.

- On December 15, 2006, Mr. Rhodes produced investor records information suggesting that he continues to withhold additional data. Specifically, as indicated in the "Investor Funds Flow" section of this report, Mr. Rhodes provided a list of "PPPS Partnership" investors and the net amounts invested, allegedly compiled from the records at the outside secretarial service. Upon analysis however, it has been determined that the secretarial source records provided to the Receiver do not contain sufficient detail to reproduce Mr. Rhodes' PPPP

Partnership investor list.

- On May 9, 2005, \$3,600,000 was deposited into four investment accounts at Ameritrade. This deposit was comprised of four \$900,000 wire transfers from the PPPS bank account. However, certain investors provided Mr. Rhodes with checks payable to Ameritrade that indicated their personal monies were part of the \$3,600,000 deposit. For example, Dr. Douglas Gribskov provided Mr. Rhodes with four checks payable to Ameritrade and totaling \$825,000.⁶ In fact, these checks from Dr. Gribskov were never deposited with Ameritrade or even cashed. The only purpose of these investor checks was to conceal the true origin of the \$3,600,000 deposit with Ameritrade.

Note that the preceding examples are not all-inclusive. Rather, they are illustrative of a deliberate pattern of deceit and concealment of records and assets.

End of Section

⁶ These four checks were dated May 5, 2005.

INVESTOR FUNDS FLOW

During the course of our investigation we endeavored to account for the flow of investor funds as well as identification of all records related to the same. Our investigation focused on those funds that were to be deposited in a “private fund” or were not otherwise deposited with a financial institution for the benefit of the investor, i.e. “custodial funds”. These “private fund” investments have collectively been referred to as the “PPPS Partnership” during the course of the receivership.

BACKGROUND

As previously discussed, the Receiver was not provided a list of the “private fund” or PPPS Partnership investors until months after his appointment. C. Wesley Rhodes, Jr. initially claimed that these investments were accounted for in a 5” X 7” blue 3-ring notebook; however, he was unable to locate said notebook. Mr. Rhodes also advised the Receiver on multiple occasions that there were no other documents of any type memorializing these investments.

During the Receiver’s investigation, it was discovered that Mr. Rhodes was using an outside secretarial service to prepare periodic statements for these “private fund” investors. Through follow up with the secretarial service, we were able to obtain copies of most statements prepared and sent to these “private fund” investors from 1999 through 2006.

Subsequent to this discovery, C. Wesley Rhodes, Jr. provided the Receiver with a list of investors in the “PPPS Partnership”. There is evidence that this investor list was actually prepared prior to the Receiver’s discovery of the outside secretarial service.

The Receiver requested the workpapers that C. Wesley Rhodes, Jr. utilized to prepare the investor list multiple times but was denied access to these documents. Ultimately, the Receiver was informed that “...*the requested documents no longer exist.*” As such, we undertook a resource-intensive review of the records we obtained from the secretarial service. These records comprised over 2,800 electronic files.

RECONCILIATION OF DATA

We have attempted to reconcile C. Wesley Rhodes, Jr.’s “PPPS Partnership” investor list with the statements obtained from the secretarial service and the transactional data utilized in our accounting. Availability of data was a critical limitation on this reconciliation. For example, we were only able to obtain records from financial institutions dating back to 1999; however, there is sufficient evidence to conclude that Mr. Rhodes was collecting “private fund” investments back in the early 1990s or late 1980s.

Our reconciliation considered data from the following sources:

- **Investor Statements** – These statements were obtained from the outside secretarial service that Mr. Rhodes was utilizing. The most current statements are dated June 30, 2006. September 30, 2006 statements were not prepared as

the Receiver was appointed before the quarter ended. The statements purport to show the investment balance as of June 30, 2006. The investment balance includes all alleged deposits, withdrawals, fees, income and change in investment value for each individual investor. **These statements have been deemed unreliable due to the inclusion of fictional amounts for investment income and/or changes in investment value. In summary, there were no underlying investments resulting in the change of investment value as reported on these statements.**

- **PPPS Partnership Investor List** – Provided by C. Wesley Rhodes, Jr. in December 2006. The list purports to show the investment amount for 58 investors. It is believed that the “investment amount” includes only deposits and withdrawals.
- **Accounting** – Net investment amounts as derived from our accounting. As discussed above, financial data was not available prior to 1999. As such, deposits and withdrawals occurring prior to 1999 are not accounted for. Additionally, not all post-1998 deposits or withdrawals have been categorized at this time due to lack of sufficient data.

The reconciliation of data from these three sources follows on the subsequent pages.

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Forensic Accountants' Report – C. Wesley Rhodes, Jr.
March 30, 2007

Per Statements to Investors*			Per Rhodes' List	Per Accounting	Reconciled Amount
Investor	Statement Date	Investment in Private Funds	Net Amount	Net Amount	
1	03/31/06	1,653,646.76	690,047.21	30,432.81	690,047.21
2	06/30/06	353,034.05	102,748.00	63,500.00	102,748.00
3	06/30/06	1,039,066.07	1,000,000.00	1,000,000.00	1,000,000.00
4	06/30/06	272,709.66	100,000.00	100,000.00	100,000.00
5	06/30/06	411,754.79	200,226.80	230,800.00	230,800.00
6	06/30/06	464,767.35	330,000.00	380,000.00	380,000.00
7	06/30/05	78,711.99		70,000.00	70,000.00
8	06/30/06	465,851.78	300,000.00	300,000.00	300,000.00
9	06/30/06	2,875,647.18	883,372.30	(775,700.00)	883,372.30
10	06/30/06	1,000,347.85	800,000.00	806,698.84	806,698.84
11	06/30/06	905,640.29	171,091.04	100,000.10	171,091.04
12	06/30/06	1,601,782.95		427,000.00	427,000.00
13	06/30/06	493,364.58	225,579.50	(87,500.00)	225,579.50
14	06/30/06	1,073,871.41		(37,349.03)	0.00
15	06/30/06	129,308.64		(260,428.82)	0.00
16				264,308.99	264,308.99
17	06/30/06	100,292.37	47,913.56	50,000.00	50,000.00
18	06/30/06	361,606.02		300,000.00	300,000.00
19	06/30/05	145,242.22		142,000.00	142,000.00
20	06/30/06	31,381.43	1,000.00	(2,000.00)	1,000.00
21	06/30/06	101,826.69	87,596.48	80,000.00	87,596.48
22	06/30/06	250,056.82	218,583.80	200,000.00	218,583.80
23	06/30/06	118,144.97	104,175.80	95,000.00	104,175.80
24	06/30/06	891,966.81	675,000.00	700,000.00	700,000.00
25	06/30/06	895,464.55	313,872.80	75,000.00	313,872.80
26				(12,780.50)	0.00
27	06/30/06	555,604.80	741,100.00		741,100.00
28	06/30/06	1,858,412.24			0.00
29	06/30/06	1,206,539.71	800,000.00	(34,000.00)	800,000.00
30	06/30/06	129,090.31			0.00
31	06/30/06	961,816.18		639,480.37	639,480.37
32	06/30/06	2,041,463.54		598,514.23	598,514.23
33	06/30/06	154,865.81			0.00
34	06/30/06	905,675.02	480,000.00	230,000.00	480,000.00
35				1,700.00	1,700.00
36	06/30/06	1,393,782.30		(548,868.19)	0.00
37	06/30/06	100,168.02	50,000.00	50,000.00	50,000.00
38				799,547.36	799,547.36
39	06/30/06	1,806,898.09	976,749.56	137,103.34	976,749.56
40	06/30/06	657,364.39	259,103.11	100,000.00	259,103.11
41	06/30/06	353,510.19	330,000.00	330,000.00	330,000.00
42	06/30/06	345,286.22	188,812.36	205,500.00	205,500.00
43	06/30/06	114,243.08	85,000.00	85,000.00	85,000.00
44	06/30/06	209,109.28	174,476.11	160,000.00	174,476.11
45	06/30/06	439,061.01	150,000.00		150,000.00
46	06/30/06	133,265.32	75,000.00		75,000.00
47	06/30/06	245,120.85	101,296.37		101,296.37
48	06/30/06	59,846.16	40,000.00	20,000.00	40,000.00
49				140,645.14	140,645.14
50	06/30/06	489,014.65	260,200.00	241,500.00	260,200.00
51	06/30/06	147,291.70		130,000.00	130,000.00
52	06/30/06	3,019,868.38	3,000,000.00	2,299,014.80	3,000,000.00
53	06/30/06	189,392.10		218,000.00	218,000.00
54	06/30/06	66,282.78	66,282.78	43,439.30	66,282.78
55	06/30/06	292,696.95	957,644.60	140,000.00	957,644.60
56	06/30/06	2,545,881.17		250,000.00	250,000.00

* Refer to Report verbiage, page 15, regarding unreliability of investor statement balances.

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Forensic Accountants' Report – C. Wesley Rhodes, Jr.
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Per Statements to Investors*			Per Rhodes' List	Per Accounting	Reconciled Amount
Investor	Statement Date	Investment in Private Funds	Net Amount	Net Amount	
57	06/30/06	1,125,762.20	1,207,644.64	1,166,580.03	1,207,644.64
58	06/30/06	2,545,881.17			0.00
59	03/31/06	568,742.90	450,000.00	472,000.00	472,000.00
60				(146,414.83)	0.00
61				(128,701.16)	0.00
62				(141,719.78)	0.00
63				950.00	950.00
64				(70,100.10)	0.00
65				250,000.00	250,000.00
66				(10,504.00)	0.00
67				(1,650.00)	0.00
68	06/30/06	204,888.76	126,647.29	(10,000.00)	126,647.29
69	06/30/06	388,200.89	259,521.93	243,896.00	259,521.93
70	06/30/06	2,914.39	2,000.00		2,000.00
71				949.50	949.50
72				191,000.00	191,000.00
73				3,816.98	3,816.98
74	06/30/06	47,056.29			0.00
75				(55,074.15)	0.00
76	06/30/06	47,056.29			0.00
77	06/30/06	47,056.29			0.00
78	06/30/06	100,735.46	151,002.00	469,317.06	469,317.06
79				(65,000.00)	0.00
80	06/30/06	68,293.17	33,251.55	40,000.00	40,000.00
81	06/30/06	181,593.60	90,449.90	(25,000.00)	90,449.90
82	06/30/06	72,880.52	50,000.00	54,175.00	54,175.00
83	06/30/06	134,108.80	82,100.00		82,100.00
84				108,464.00	108,464.00
85				26,835.42	26,835.42
86	06/30/06	160,039.96	98,729.60	120,255.32	120,255.32
87				68,846.58	68,846.58
88	06/30/06	466,464.53	226,615.18	147,814.82	226,615.18
89				(5,120.00)	0.00
90				(35,411.91)	0.00
91				110,000.00	110,000.00
92	06/30/06	292,330.80	10,000.00	10,000.00	10,000.00
93	06/30/06		145,406.71	106,347.01	145,406.71
94			240,000.00	240,000.00	240,000.00
95	06/30/06	191,399.64	90,824.61	15,000.00	90,824.61
96				20,000.00	20,000.00
97			136,647.29		136,647.29
98	06/30/06	213,331.64		(287,838.68)	0.00
99	06/30/06	52,169.64		(141,260.63)	0.00
100				6,000.00	6,000.00
101	06/30/06	6,774.74			0.00
102	06/30/06	19,629.04	19,037.00	12,000.00	19,037.00
103	06/30/06	553,340.11	452,441.81	20,318.00	452,441.81
104				(351,148.99)	0.00
105	03/31/06	64,795.41		60,000.00	60,000.00
106	03/31/06	277,228.47	139,635.87	32,500.00	139,635.87
107				(114,586.03)	0.00
108				(160,000.00)	0.00
109				235,536.17	235,536.17
TOTAL		<u>43,969,712.19</u>	<u>18,998,827.56</u>	<u>12,958,630.37</u>	<u>24,566,232.65</u>

* Refer to Report verbiage, page 15, regarding unreliability of investor statement balances.

FINDINGS

The aggregate balance of the most current investor statements is \$43,969,712.⁷ This is the highest aggregate amount of the three sources as it purports to include the investor's deposits, withdrawals and return on investment. Given that these funds were predominately **not** held in actual investment accounts, it is our opinion that the stated investment returns on "private fund" monies are all contrived. This data is presented for comparison purposes only and was not utilized in our reconciliation.

The aggregate investment amount derived from the accounting is the lowest amount at \$12,958,630. The result is expected as the accounting does not include investment activity prior to 1999 and not all post-1998 activity has yet been categorized. This has led to a gross understatement of some investment amounts and, in some instances, negative investor balances. The reality is that some of these investors deposited money prior to 1999 which was withdrawn subsequent to 1999. Therefore, only the withdrawals were recorded in our accounting.

The investment amount reported by Mr. Rhodes was \$18,998,828. However, there is evidence that Mr. Rhodes' list does not include all investor activity. There are investor deposits that were noted in the accounting and other sources that do not appear on Mr. Rhodes' investor list.

For purposes of our reconciliation, we began with the investor balances reported by Mr. Rhodes. We then added those investments listed in the accounting that were not reported on Mr. Rhodes' list. Finally, we used the amount from the accounting if it exceeded that reported on Mr. Rhodes' list. The resulting estimate of net amounts due to "private fund" investors is approximately \$24,566,000.

Over \$14.3 million has been identified as distributions to investors during the period of this accounting. Therefore, gross funds received from "private fund" investors approximates \$39 million (\$24,566,000 + \$14,342,000 = \$38,908,000).

It is our opinion that these are reasonable, if not conservative, estimates of the net and gross amount of "private fund" investments. Nonetheless, further investigation, including identification/categorization of transactions and communications with investors, will result in revisions to these figures. The final number of investors and related amounts due to each investor, if any, from the Estate will not be available until the Receiver completes the claims process.

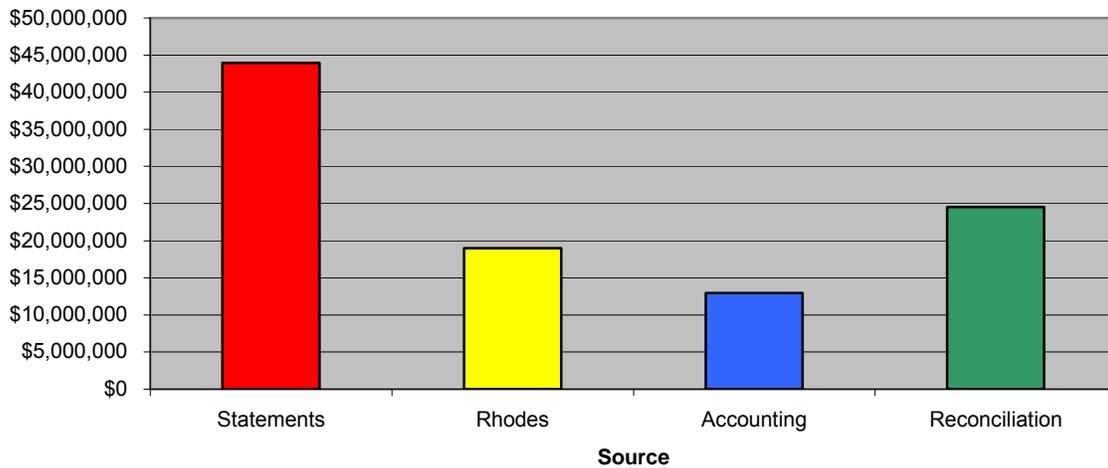
⁷ Many of the statements included "private fund" investments as well as custodial investments. We have attempted to only account for only those funds that were not held in custodial accounts at Charles Schwab or Ameritrade.

The number of remaining investors identified via each source is presented in the following table.

Data Source	# of Investors
Investor Statements	77
Rhodes' List	58
Accounting	95
Reconciliation	82

The aggregate investment amounts discussed above are presented visually in the following graph.

Comparison of Aggregate Investment Amounts



End of Section

CONSOLIDATED FINANCIAL STATEMENTS

The following list indicates the financial statement detail that comprises this Report section. The 3 key financial statements provide the reader with a succinct summary of The Rhodes Entities' business and related operations for the years 1998 through 2006. Note that the consolidated statements represent the results after applying accounting elimination⁸ ⁹ entries. A complete copy of the Consolidate Financial Statements and Consolidating Schedules are attached as Exhibit A at the end of this report.

financialforensics® has prepared the consolidated financial statements during the course of this receivership. However, financialforensics® does not attest to the accuracy of these consolidated financial statements since they have not performed an audit, review or compilation of the same. Additionally, these consolidated financial statements are not prepared in accordance with Generally Accepted Accounting Principles (GAAP). The results are only a function of the financial records environment as defined by our investigation. The universe of data is continuously evolving as more information becomes available.

The consolidated financial statements are prepared on a modified-cash basis and all assets are recorded at "book value". Given the accounting method and inconsistency in source data, the consolidated balance sheet should not be viewed as an accurate portrayal of the assets and liabilities of The Rhodes Entities as of September 30, 2006. For example, the Company may have recorded \$253,165 in fixed assets. However, that does not imply that this is the fair market value of these assets or that all assets were on hand as of the appointment date of the Receiver.

Furthermore, the purchases of many assets were not capitalized but rather expensed. For example, none of the automobiles purchased through Corvette Specialties, Inc., Northwest Muscle Cars, LLC or PPPS have been capitalized. It is our opinion that C. Wesley Rhodes, Jr. converted these funds for personal benefit. This conclusion is supported by the fact that most, if not, all automobiles were titled in the name of C. Wesley Rhodes, Jr. rather than the respective entities. As such, these were not deemed assets of The Rhodes Entities for the purpose of this accounting.

Finally, the Company operated on primarily a cash basis and only recorded expenditures as paid. Therefore accounts payable and other liabilities may be grossly understated as of September 30, 2006. An accurate presentation of total payables will only be available once the Receiver has completed the claims process.

⁸ Such entries remove or "eliminate" the effects of intercompany transactions, thus enabling the presentation of all account balances as if the entities were a single economic enterprise.

⁹ Simons, Harry A., M.A, CPA, and Karrenbrock, Wilbert E., Ph.D., Advanced Accounting – Comprehensive Volume 4th, South-Western Publishing Company, (Cincinnati, OH – 1968), page 305: "In viewing the parent and subsidiary as a single entity, reciprocal intercompany balances must be eliminated to avoid a duplication of assets, liabilities and ownership equities."

For purposes of the Report, the following generally accepted accounting definitions are offered for reference:

- ❑ *Financial statement* – Any report summarizing the financial condition or financial results of a person or organization on any date or for any period. Financial statements include the balance sheet and the income statement and sometimes the statement of changes in financial position.¹⁰
- ❑ *Consolidated statement* – Financial statements that include the accounts of both a parent company and controlled subsidiaries.¹¹
- ❑ *Balance sheet* – The balance sheet, sometimes called the statement of financial position, lists the company's assets, liabilities and stockholders' equity (including dollar amounts) as of a specific moment in time.¹²
 - *Assets* - Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.¹³
 - *Liabilities* - Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.¹⁴
 - *Equity* - Equity or net assets is the residual interest in the assets of an entity that remains after deducting its liabilities.¹⁵
- ❑ *Income statement* – The income statement, sometimes called an earnings statement, reports the profitability of a business organization for a stated period of time. In accounting, we measure profitability for a period, such as a month or a year, by comparing the revenues generated with the expenses (and costs) incurred to produce these revenues.¹⁶
 - *Revenues* - Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.¹⁷
 - *Expenses* - Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or

¹⁰ Black's Law Dictionary 6th, West Publishing Co., (St. Paul, MN – 1990), page 631.

¹¹ Ibid, page 631.

¹² Hermanson, Roger H., and Edwards, James Don, Financial Accounting – A Business Perspective 7th, Irwin/McGraw-Hill, (Boston, MA – 1998), page20.

¹³ *Concept Statement No. 6*, "Elements of Financial Statements", FASB (Financial Accounting Standards Board), (Norwalk, CN – 1985).

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Hermanson, et al, page 18.

¹⁷ Ibid.

producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.¹⁸

- *Cash flow statement* – The cash flow statement shows the cash inflows and cash outflows from operating, investing and financing activities.¹⁹
 - *Operating flows* - Operating activities include all transactions and other events that are not defined as investing or financing activities. Operating activities generally involve producing and delivering goods and providing services. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.²⁰
 - *Investing flows* - Investing activities include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets, that is, assets held for or used in the production of goods or services by the enterprise (other than materials that are part of the enterprise's inventory).²¹
 - *Financing flows* - Financing activities include obtaining resources from owners and providing them with a return on, and a return of, their investment; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.²²

The Rhodes Entities' Consolidated Financial Statements for 1998 through 2006 consist of:

- Consolidated Balance Sheet
- Consolidated Income Statement.
- Consolidated Cash Flow Statement.

¹⁸ Ibid.

¹⁹ Hermanson, et al, page 20.

²⁰ FAS 95: *Statement of Cash Flows*, FASB (Financial Accounting Standards Board), (Norwalk, CN – 1987).

²¹ Ibid.

²² FAS 95: *Statement of Cash Flows*, FASB (Financial Accounting Standards Board), (Norwalk, CN – 1987).

THE RHODES ENTITIES' CONSOLIDATED BALANCE SHEET

The Rhodes Entities' Consolidated Balance Sheet is reproduced on the following page. It indicates key elements of The Rhodes Entities' assets, liabilities and resultant equity for each year.

MICHAEL A. GRASSMUECK
Forensic Accountants' Report – C. Wesley Rhodes, Jr.
March 30, 2007

SEC V. C. WESLEY RHODES, JR. ET AL - FORENSIC ACCOUNTANTS' REPORT
CONSOLIDATED BALANCE SHEET
1998 THROUGH 2006

	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	09/30/06
Cash	63,957.88	474,903.45	223,604.88	320,468.65	1,131,613.48	1,615,757.90	1,105,952.33	1,898,607.78	1,408,524.83
Investments - Ameritrade	0.00	0.00	0.00	0.00	0.00	0.00	1,711,669.24	1,097,372.04	0.00
Investments - Bidwell & Co.	0.00	0.00	0.00	0.00	0.00	966,473.03	0.00	0.00	0.00
Investments - Charles Schwab	1,014,077.65	1,469,521.39	757,341.42	360,303.57	233,937.68	397,599.02	224,916.94	240,646.55	183,291.13
Investments - Fidelity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,151,868.45
Other Current Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Current Assets	1,078,035.53	1,944,424.84	980,946.30	680,772.22	1,365,551.16	2,979,829.95	3,042,538.51	3,236,626.37	2,743,684.41
Fixed Assets (Refer to Report)	103,916.49	123,901.00	129,725.83	138,405.78	153,717.03	134,333.41	190,254.42	238,275.03	253,165.03
Accumulated Depreciation	(30,108.39)	(88,760.00)	(91,624.00)	(109,375.00)	(120,969.00)	(91,506.00)	(133,322.73)	(151,906.73)	(151,906.73)
Total Fixed Assets	73,808.10	35,141.00	38,101.83	29,030.78	32,748.03	42,827.41	56,931.69	86,368.30	101,258.30
Due from Shareholder	0.00	23,088.89	312,527.88	363,047.41	323,196.15	322,780.48	322,653.46	321,728.83	315,228.83
Due from Dura-Craft	0.00	0.00	0.00	0.00	0.00	0.00	1,205.54	1,205.54	1,205.54
Due from Dollhouse Ventures	0.00	0.00	0.00	0.00	0.00	0.00	211,747.49	312,417.40	312,417.40
Due from Estates in Miniature	0.00	0.00	0.00	0.00	0.00	135,482.95	135,228.00	135,228.00	139,948.00
Due from VAM	0.00	0.00	5,207.10	5,207.10	5,207.10	5,207.10	5,207.10	5,207.10	5,207.10
Due from VMC	4,905.27	4,905.27	4,905.27	5,430.27	5,430.27	5,430.27	5,430.27	5,430.27	5,430.27
Other Assets	7,387.25	5,832.25	4,277.25	2,722.25	1,167.25	0.00	0.00	0.00	0.00
Total Other Assets	12,292.52	33,826.41	326,917.50	376,407.03	335,000.77	468,900.80	681,471.86	781,217.14	779,437.14
TOTAL ASSETS	1,164,136.15	2,013,392.25	1,345,965.63	1,086,210.03	1,733,299.96	3,491,558.16	3,780,942.06	4,104,211.81	3,624,379.85
Payroll/Pension Liabilities	0.00	21,871.37	4,916.86	0.00	0.00	0.00	1,160.43	326.56	(11,177.95)
Credit Cards	26,419.78	39,413.19	38,181.84	17,303.01	58,311.80	62,594.31	63,839.83	58,580.53	65,720.20
Line of Credit	7,650.00	0.00	0.00	0.00	0.00	0.00	0.00	3,830.57	3,830.57
Margin Accounts - Investments	0.00	0.00	0.00	0.00	0.00	424,385.94	671,818.46	0.00	37,909.55
Total Current Liabilities	34,069.78	61,284.56	43,098.70	17,303.01	58,311.80	486,980.25	736,818.72	62,737.66	96,282.37
Leases Payable	0.00	4,902.60	3,746.51	1,804.90	0.00	0.00	0.00	0.00	(2,312.00)
Loans Payable	24,030.00	20,989.41	17,346.26	13,157.69	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	24,030.00	25,892.01	21,092.77	14,962.59	0.00	0.00	0.00	0.00	(2,312.00)
Due to Estates in Miniature	0.00	0.00	0.00	0.00	0.00	10,345.00	10,345.00	10,345.00	10,345.00
Due to Dura-Craft	0.00	0.00	0.00	2,094.00	2,094.00	2,537.46	0.00	0.00	0.00
Due to Shareholder	663,450.63	30,158.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due to Investors	292,553.57	780,114.80	1,890,738.43	3,963,773.42	6,889,254.43	9,980,507.36	13,653,862.74	24,321,474.47	27,335,720.16
Investor Distributions	0.00	(100,127.35)	(793,782.88)	(1,411,848.30)	(1,934,117.37)	(2,665,417.02)	(4,484,686.26)	(12,203,729.48)	(14,341,699.65)
Total Other Liabilities	956,004.20	710,146.24	1,096,955.55	2,554,019.12	4,957,231.06	7,327,972.80	9,179,521.48	12,128,089.99	13,004,365.51
Total Liabilities	1,014,103.98	797,322.81	1,161,147.02	2,586,284.72	5,015,542.86	7,814,953.05	9,916,340.20	12,190,827.65	13,098,335.88
Capital Stock	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00
Retained Earnings	146,032.17	1,212,069.44	180,818.61	(1,504,074.69)	(3,286,242.90)	(4,327,394.89)	(6,139,398.14)	(8,090,615.84)	(9,477,956.03)
Total Equity	150,032.17	1,216,069.44	184,818.61	(1,500,074.69)	(3,282,242.90)	(4,323,394.89)	(6,135,398.14)	(8,086,615.84)	(9,473,956.03)
TOTAL LIABILITIES & EQUITY	1,164,136.15	2,013,392.25	1,345,965.63	1,086,210.03	1,733,299.96	3,491,558.16	3,780,942.06	4,104,211.81	3,624,379.85

The following highlights convey the composition of the Balance Sheet:

- **Total Assets** – Total Assets increased from \$1,164,136 to \$3,624,380 during 1998 to 2006, respectively.

Total Assets are comprised of Current Assets, Net Fixed Assets and Other Assets.

- **Current Assets** – Current Assets increased from \$1,078,036 to \$2,743,684 during 1998 to 2006, respectively.

The Current Assets consists of \$1,408,525 in cash and \$1,335,160 in marketable securities. It should be noted that significant investor funds were deposited in 2006 accounting for most of the marketable securities on hand at appointment of the Receiver.

- **Net Fixed Assets** – Net Fixed Assets increased from \$73,808 to \$101,258 during 1998 to 2006, respectively.

The Net Fixed Assets composition includes Artwork, Computers, Furniture and Equipment purchased by The Rhodes Company and Rhodes Econometrics. All of these assets are stated at costs less accumulated depreciation.

As previously stated, Net Fixed Assets do not include any of the automobile purchases, improvements to Rhodes' personal property or similar items. These items were treated as expenses of The Rhodes Entities. Refer to the report section titled *Current Financial Position of The Estate for further discussion of the automobiles and other fixed assets.*

- **Other Assets** - Other Assets increased from \$12,293 to \$779,437 during 1998 to 2006, respectively.

The Other Assets composition includes shareholder receivables and loans to other related entities. The shareholder receivable relates to amounts recorded on the books of The Rhodes Company and Rhodes Econometrics. Most of this activity was recorded by the internal bookkeeper or external accountant for these companies. We have not performed a detailed review of the activity in these accounts.

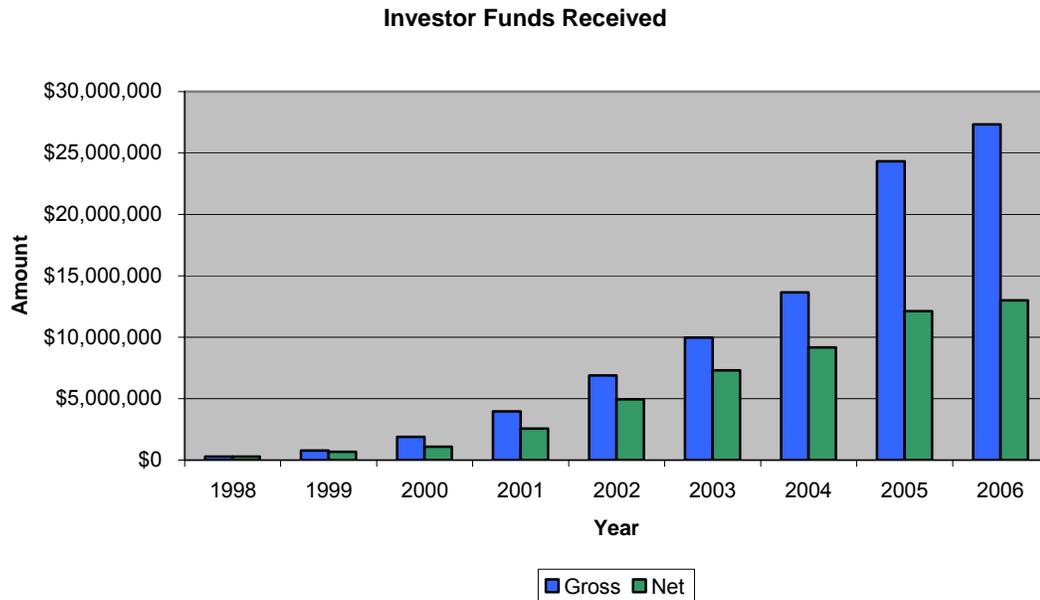
- **Total Liabilities & Owners' Equity** – Total Liabilities & Owners' Equity increased from \$1,164,136 to \$3,624,380 during 1998 to 2006, respectively. Total Liabilities & Owners' Equity are comprised of Current Liabilities, Long Term Liabilities and Owners' Equity.

- **Current Liabilities** – Current Liabilities increased from \$34,070 to \$96,282 from 1998 to 2006, respectively.

The Current Liabilities are primarily comprised of credit card balances and accrued liabilities. However, in 2003 and 2004 there were significant balances in the Margin Accounts which should be offset against the value of marketable securities.

- **Long Term Liabilities** – Long Term Liabilities increased from \$980,034 to \$13,004,366 from 1998 to 2006, respectively.

The Long Term Liabilities as of September 30, 2006 are primarily comprised of Amounts Due to Investors. The following graph illustrates the cumulative gross funds received from investors and the net amount still owing to said investors for the period covered under the accounting.



As discussed earlier in our report, these amounts only reflect known amounts under the scope and period of our accounting. As such, investor funds deposited directly into Rhodes' personal accounts or received prior 1998 are not accounted for here. Additionally, there are some deposits that have not been identified or categorized at this time resulting in a further understatement of investor funds received.

- **Owners' Equity** – Owners' Equity decreased from \$150,032 to (\$9,477,956) from 1998 to 2006, respectively. Owners' Equity is comprised of Capital Stock and Retained Earnings.
 - **Capital Stock** – Capital Stock represents Mr. Rhodes' initial capital contribution to The Rhodes Company and Rhodes Econometrics.
 - **Retained Earnings** – Retained Earnings reflects the consolidated net income as well as distributions to Rhodes and miscellaneous accounting adjustments. Shareholder distributions and accounting adjustments were only recorded within The Rhodes Company and Rhodes Econometrics.

THE RHODES ENTITIES' CONSOLIDATED INCOME STATEMENT

The Rhodes Entities' Consolidated Income Statement is reproduced on the following page. It indicates key elements of The Rhodes Entities' revenues and expenses for each year.

MICHAEL A. GRASSMUECK
Forensic Accountants' Report – C. Wesley Rhodes, Jr.
March 30, 2007

SEC V. C. WESLEY RHODES, JR. ET AL - FORENSIC ACCOUNTANTS' REPORT
CONSOLIDATED INCOME STATEMENT
1998 THROUGH 2006

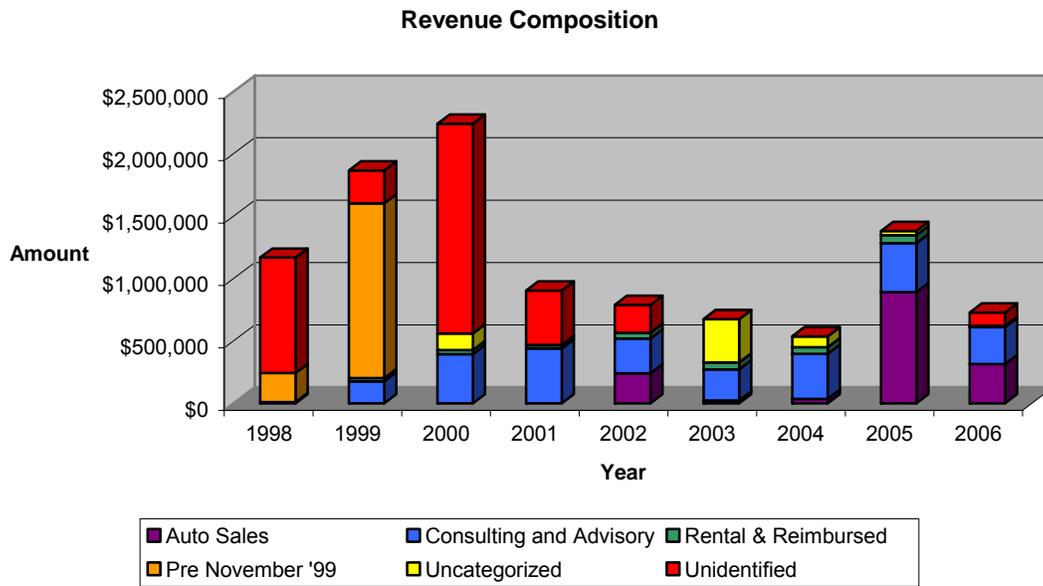
	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	09/30/06	Total
Auto Sales	0.00	0.00	0.00	0.00	239,200.00	22,500.00	36,000.00	891,233.00	314,320.00	1,503,253.00
Consulting and Advisory Fees	0.00	176,031.11	393,544.57	438,549.89	279,394.69	248,683.08	359,577.42	393,597.03	295,961.00	2,585,338.79
Reimbursed Expenses	0.00	920.74	0.00	0.00	0.00	112.89	0.00	0.00	0.00	1,033.63
Rental Income	9,536.03	23,981.70	32,906.70	26,700.00	45,938.75	55,710.50	53,177.29	63,839.13	0.00	311,790.10
Pre November '99 Deposits	231,585.55	1,402,750.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,634,335.61
Uncategorized Deposits	0.00	0.00	133,569.60	2,969.00	0.00	346,662.07	88,459.80	32,915.36	10,163.40	614,739.23
Unidentified Deposits	927,240.50	264,189.59	1,681,985.33	436,219.48	224,676.53	18.18	0.00	310.00	106,450.62	3,641,090.23
Total Revenue	1,168,362.08	1,867,873.20	2,242,006.20	904,438.37	789,209.97	673,686.72	537,214.51	1,381,894.52	726,895.02	10,291,580.59
Advertising	36,654.36	16,804.26	12,790.66	49,524.04	108,782.39	98,877.99	60,716.96	68,670.78	37,964.66	490,786.10
Auto Purchases (Refer to Report)	0.00	138,500.00	101,613.00	66,764.64	465,256.76	251,974.28	307,435.53	1,324,257.65	630,272.87	3,286,074.73
Auto Restoration/Modification	0.00	0.00	0.00	3,046.26	28,762.44	74,079.80	54,076.32	141,169.65	165,968.92	467,103.39
Auto Transportation	0.00	0.00	0.00	0.00	0.00	1,200.00	0.00	0.00	17,038.32	18,238.32
Bank Service Charges	322.86	729.96	1,092.22	1,168.57	683.93	1,011.89	670.54	2,083.44	833.34	8,596.75
Cash Withdrawals	211,263.85	3,560.00	320,034.06	9,193.80	9,701.50	18,716.75	18,303.50	49,140.00	23,707.00	663,620.46
Continuing Education	1,110.22	2,951.00	10,257.22	5,566.85	0.00	0.00	0.00	0.00	0.00	19,885.29
Contributions	5,485.00	100.00	700.00	0.00	65.00	250.00	0.00	0.00	240.00	6,840.00
Depreciation & Amortization	574.00	25,488.00	12,145.00	19,306.00	24,640.00	7,417.25	83,079.73	24,752.00	0.00	197,401.98
Dues and Subscriptions	4,748.28	4,611.90	2,317.00	1,422.00	3,444.98	4,144.54	2,888.99	1,693.00	851.00	26,121.69
Employee Benefits	2,710.95	7,054.40	12,631.80	16,904.26	17,396.31	4,869.36	10,224.35	6,270.26	0.00	78,061.69
Equipment Rental	3,675.00	11,025.00	15,065.69	26,700.00	21,405.50	23,696.90	28,332.00	27,468.00	0.00	157,368.09
Insurance	2,835.11	3,769.82	1,721.33	6,042.48	12,276.56	19,992.62	22,977.08	22,184.50	1,280.58	93,080.08
Insurance - Shareholder	0.00	4,079.29	0.00	0.00	0.00	7,881.10	8,911.31	0.00	0.00	20,871.70
Interest Expense	4,022.08	9,538.96	9,240.90	11,199.59	661.11	3,192.42	4,178.63	9,913.41	0.00	51,947.10
Licenses and Permits	1,113.00	685.00	425.00	1,432.00	690.00	811.00	2,776.00	1,125.00	1,203.00	10,260.00
Meals and Entertainment	18,098.61	11,102.78	13,646.74	8,761.29	7,982.44	4,694.10	8,508.35	9,077.87	1,376.00	83,248.18
Miscellaneous	680.60	285.00	0.00	1,237.94	1,291.02	4,992.61	4,744.69	0.00	3,567.25	16,799.11
Moving	1,129.50	2,120.81	0.00	0.00	0.00	0.00	10,003.41	0.00	0.00	13,253.72
Office Supplies	511.78	20,764.25	21,448.99	8,995.45	7,367.21	7,432.86	9,560.52	11,996.67	2,187.30	90,265.03
Outside Services	4,332.00	0.00	27,741.13	28,841.59	13,467.94	12,637.60	2,037.55	6,196.62	1,130.00	96,384.43
Payroll Expense	253,352.09	186,536.79	198,511.20	179,338.25	94,703.57	136,981.41	188,833.18	225,003.63	231,305.26	1,694,565.38
Payroll Taxes	4,305.86	20,347.32	22,359.61	16,911.13	12,780.50	14,753.66	20,340.75	23,992.66	1,507.41	137,298.90
Pension Expense	3,230.00	26,168.21	25,610.77	0.00	0.00	0.00	0.00	0.00	0.00	55,008.98
Personal Use	6,000.00	193,415.89	225,330.14	665,141.27	752,729.28	445,335.76	1,285,123.63	1,490,292.51	384,890.74	5,448,259.22
Postage and Delivery	8,635.45	3,221.03	6,581.35	3,245.68	3,641.32	6,356.13	5,517.42	4,042.63	473.14	41,714.15
Printing and Reproduction	9,507.62	5,681.90	6,157.06	2,495.12	2,630.11	9,429.50	9,929.00	4,798.09	3,743.41	54,371.81
Professional Fees	33,038.14	48,274.14	15,063.48	12,141.07	21,876.22	16,802.46	(18,603.11)	36,572.48	15,638.94	180,803.82
Rent	27,976.00	47,893.66	49,558.00	50,546.51	79,256.25	90,813.58	74,813.22	110,737.28	47,706.65	579,301.15
Repairs	575.20	2,042.00	1,856.00	3,318.00	4,235.00	3,230.00	2,710.00	4,609.74	610.00	23,185.94
Research Materials	0.00	0.00	3,303.50	4,103.24	21,851.93	39,035.29	31,913.00	39,600.00	30,600.00	170,406.96
Taxes	4,274.46	1,239.47	1,732.47	189.44	361.28	160.49	235.76	684.10	96.96	8,974.43
Telephone	12,515.59	13,815.50	21,339.62	12,179.91	12,690.69	12,431.33	19,029.14	17,946.10	6,857.24	128,805.12
Travel	15,693.82	16,590.11	17,799.41	28,373.26	13,643.72	5,142.26	1,532.57	1,326.24	11,624.21	111,725.60
Pre November '99 Expenses	227,453.86	715,430.16	0.00	0.00	0.00	0.00	0.00	0.00	0.00	942,884.02
Uncategorized	1,400.00	25,010.00	306,200.50	19,569.60	3,787.73	5,407.05	30,000.00	10,972.45	34,550.36	436,897.69
Unidentified - Under \$1,000	0.00	0.00	0.00	0.00	42,732.92	37,331.98	43,419.22	51,939.35	5,066.44	180,489.91
Unidentified Withdrawals	12,168.67	398,612.64	1,007,116.27	468,730.85	15,000.00	1,300.00	200,000.00	11,850.00	208,531.45	2,323,309.88
UNK - To Banks and Credit Cards	62,250.00	12,915.79	79,730.75	299,172.49	503,364.38	599,064.13	2,023.90	61,063.67	312,991.20	1,932,576.31
Total Expenses	981,643.96	1,980,365.04	2,551,120.87	2,031,562.58	2,309,159.99	1,971,448.10	2,536,243.14	3,801,429.78	2,183,813.65	20,346,787.11
Operating Income/(Loss)	186,718.12	(112,491.84)	(309,114.67)	(1,127,124.21)	(1,519,950.02)	(1,297,761.38)	(1,999,028.63)	(2,419,535.26)	(1,456,918.63)	(10,055,206.52)
Sale of Assets Gain/(Loss)	0.00	0.00	0.00	0.00	0.00	0.00	(507.00)	0.00	0.00	(507.00)
Investment Gain/(Loss)	188,893.38	567,346.06	(864,462.07)	(496,032.90)	(217,178.05)	273,547.06	210,018.93	529,769.46	80,117.50	272,019.37
Interest Income	1,171.38	9,903.24	5,781.50	10,098.01	1,057.63	721.25	1,036.92	2,326.20	21,780.55	53,876.68
Other Income	7,139.95	0.00	0.00	2,815.00	0.00	0.00	0.00	0.00	0.00	9,954.95
Transaction Fees - Investments	(6,703.02)	(29,039.16)	(49,625.88)	(41,221.94)	(18,049.64)	(17,658.92)	(23,523.47)	(62,231.49)	(29,319.61)	(277,373.13)
Total Other Income/(Expense)	190,501.69	548,210.14	(908,306.45)	(524,341.83)	(234,170.06)	256,609.39	187,025.38	469,864.17	72,573.44	57,970.87
Net Income/(Loss)	377,219.81	435,718.30	(1,217,421.12)	(1,651,466.04)	(1,754,120.08)	(1,041,151.99)	(1,812,003.25)	(1,949,671.09)	(1,384,340.19)	(9,997,235.65)

The following highlights convey the composition of the Income Statement:

- **Total Revenues** – Total Revenues decreased from \$1,168,362 to \$726,895 during 1998 to 2006, respectively.

Revenues are almost certainly overstated due to the significant amount of uncategorized and unidentified deposits which are actually investor funds received. Reclassification of these deposits will result in a decrease of Revenues and a related increase to Liabilities.

The Total Revenues composition is indicated in the bar graph below:



- **Auto Sales** – These deposits relate to the sales of collector cars and other automobiles.
- **Consulting and Advisory Fees** – These fees are recorded on the books of The Rhodes Company and Rhodes Econometrics. We have attempted to adjust the records to reflect deposits of investor funds that were erroneously classified as Advisory Fees. Additionally, the fees include some amounts for Advisory Fees assessed on investments in “private funds” or the “PPPS Partnership” despite the fact that these investment accounts did not exist as represented.
- **Pre November '99 Deposits** – Unfortunately, the record retention policy of certain financial institutions prohibits us from obtaining all transaction records dating back to January 1, 1998. There is a high probability that these amounts are deposits for investor funds.
- **Uncategorized Deposits** – These are deposits for which the payer has been identified but the purpose has not.

- **Unidentified Deposits** – These are deposits for which we have not yet received the transaction detail.

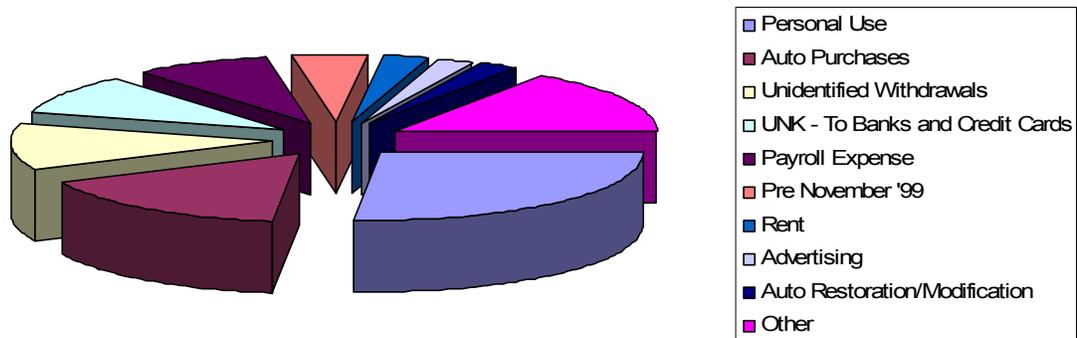
Note that over eighty-eight percent of the deposits made in calendar years 1998 through 2000 are either uncategorized or unidentified.

- **Total Expenses** – Total Expenses increased from \$981,644 to \$2,183,814 from 1998 to 2006, respectively.

Top 9 Expenses

The following graph categorizes the relative size of the Top 9 Expenses comprising all The Rhodes Entities' expenses during the period of the accounting; all "other" expenses are aggregated in order to reflect 100% of disbursements.

Top 9 Expenses



The Top 9 Expenses indicated above are specifically identified as follows:

Category	Total	% Total	Cum %
Personal Use	\$5,448,259	26.78%	26.78%
Auto Purchases	3,286,075	16.15%	42.93%
Unidentified Withdrawals	2,323,310	11.42%	54.35%
UNK – To Banks & Credit Cards	1,932,576	9.50%	63.84%
Payroll Expense	1,694,565	8.33%	72.17%
Pre November '99	942,884	4.63%	76.81%
Rent	579,301	2.85%	79.65%
Advertising	490,786	2.41%	82.07%
Auto Restoration/Modification	467,103	2.30%	84.36%
Other	3,181,927	15.64%	100.0%
	<u>\$20,346,787</u>	<u>100.0%</u>	

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March 30, 2007

The table above reflects the respective proportion of the Top 9 expenses. For example, Personal Uses aggregate 26.78% of Total Expenses, derived from \$5,448,259 divided by \$20,346,787, the total of all The Rhodes Entities' expenses during the period of our accounting.

Personal Use – These amounts were specifically identified as funds diverted for the personal benefit of C. Wesley Rhodes, Jr. and/or his family. These expenditures include home improvements, transfers to personal bank accounts, transfers to personal and family investment accounts, mortgage payments, payments for family weddings and related items.

The following table identifies the Personal Use expenditures by category and year.

Personal Use	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Furniture and Fixtures					\$13,850	\$32,815	\$26,054	\$33,145		\$105,864
Insurance				\$1,746				1,036	\$23,373	26,155
Life Insurance	\$6,000		\$2,250	3,499	20,623	3,749	40,749	55,525	2,500	134,896
Loan & Credit Card Payments		\$4,016	131,171	134,681	255,802	108,493	666,498	592,061	178,512	2,071,234
Medical								528		528
Mortgage						47,827	45,634	298,447	26,620	418,529
Other				5,545	31,046	102,701	142,178	87,050	24,268	392,788
Phone								2,542	7,690	10,232
Property Improvements/Maintenance				15,586	155,570	130,668	240,410	226,482	74,731	843,447
Property Taxes								9,338		9,338
Transfers to Bank Accounts			48,000	319,020	215,037	19,083	121,100	182,850	35,800	940,890
Transfers to Investment Accounts		189,400	43,703	184,744	60,802					478,649
Utilities			207	320			2,500	1,288	11,396	15,712
	\$6,000	\$193,416	\$225,330	\$665,141	\$752,729	\$445,336	\$1,285,124	\$1,490,293	\$384,891	\$5,448,259

- **Loan and Credit Card Payments** – Monies that were utilized to payoff personal loans, credit lines, credit cards or other debts of C. Wesley Rhodes, Jr. As previously discussed, some of these credit lines were linked to Rhodes' personal bank accounts to cover any overdraft position.
- **Mortgage** – Payments on the mortgage for Rhodes' personal residence and/or other properties.
- **Other** – Miscellaneous payments for personal use including, but not limited to, payments to Charles Wesley Rhodes III (son of C. Wesley Rhodes Jr.), jewelry purchases, association dues for beach property, Portland Trailblazers tickets, and donations to Wilsonville High School.
- **Property Improvement/Maintenance** – Payments for various property improvements and/or maintenance for personal property. One contractor was paid in excess of \$350,000 over a three and half year period.
- **Transfers to Bank Accounts** – Identified transfers to C. Wesley Rhodes, Jr.'s personal bank accounts.
- **Transfers to Investment Accounts** – Identified transfers to investment accounts for the benefit of C. Wesley Rhodes, Jr. and other family members.

Auto Purchases – Funds used to purchase automobiles including loan and lease payments. These were not capitalized as assets of The Rhodes Entities since most, if not all, of the automobile titles are in the name of C. Wesley Rhodes, Jr. As such, it is our opinion that Mr. Rhodes converted these funds for personal use at the time of purchase and/or payment. There are 167 identified payments for over 40 different automobile purchases. Refer to the report section titled *Current Financial Position of The Estate for further discussion of the automobile purchases.*

Unidentified Withdrawals – Withdrawals for which we have not received any transaction detail. A large portion of these withdrawals were made from investment accounts.

UNK-To Banks and Credit Cards – Financial institution or account numbers have been identified; however, we have not yet received subpoena responses regarding the payment beneficiary or payment purpose.

Payroll Expense – Primarily payments for employees of The Rhodes Company and/or Rhodes Econometrics. Some payments to family members or family friends were classified as Payroll Expense. We have not reclassified all of these payments as we have not investigated the nature of services, if any, provided by these individuals.

Pre November '99 – Withdrawals made prior to November 1999. Due to financial institution record retention policies, we are unable to obtain transaction details for this period.

Advertising – Primarily payments by The Rhodes Company and Rhodes Econometrics for advertising and promotion. This includes the thousands of dollars a month that were spent on radio spots.

Auto Restoration/Modification – Payments for restoration or modification of classic cars and other automobiles. Over half of these monies were paid to Corvette Specialties, Inc.

THE RHODES ENTITIES' CONSOLIDATED CASH FLOW STATEMENT

The Rhodes Entities' Consolidated Cash Flow Statement is reproduced on the following page. It indicates key elements of The Rhodes Entities' cash inflows/outflows for each year.

MICHAEL A. GRASSMUECK
Forensic Accountants' Report – C. Wesley Rhodes, Jr.
March 30, 2007

SEC V. C. WESLEY RHODES, JR. ET AL
CONSOLIDATED CASH FLOW STATEMENTS
1998 THROUGH 2006

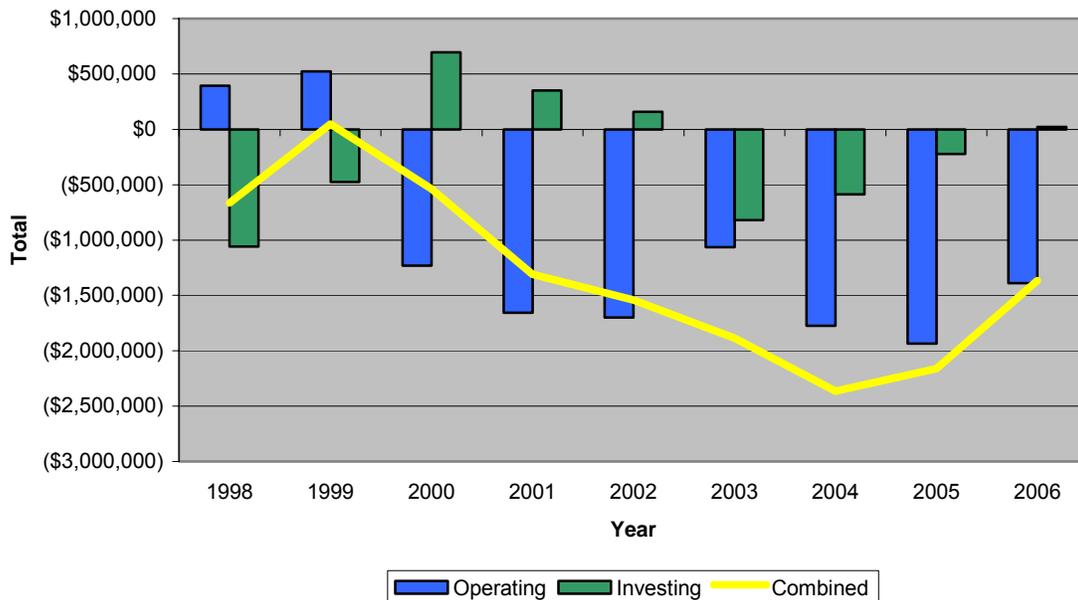
	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	09/30/06	Total
OPERATING ACTIVITIES										
Net Income	377,219.81	435,718.30	(1,217,421.12)	(1,651,466.04)	(1,754,120.08)	(1,041,151.99)	(1,812,003.25)	(1,949,671.09)	(1,384,340.19)	(9,997,235.65)
Adjustments to reconcile net income to net cash from operations										
Cash to Accrual Adjustment	2,500.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,500.00
Add: Depreciation	574.00	60,206.61	4,419.00	19,306.00	13,149.00	(28,295.75)	34,040.48	18,584.00	0.00	121,983.34
Accounts Payable - Incr/(Decr)	(2,500.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(2,500.00)
Accrued Expenses - Incr/(Decr)	14,747.99	34,864.78	(18,185.86)	(25,795.69)	41,008.79	4,282.51	2,405.95	(6,093.17)	(4,364.84)	42,870.46
Other Current Liabilities - Incr/(Decr)	0.00	(7,650.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(7,650.00)
Operating Cash Flow	<u>392,541.80</u>	<u>523,139.69</u>	<u>(1,231,187.98)</u>	<u>(1,657,955.73)</u>	<u>(1,699,962.29)</u>	<u>(1,065,165.23)</u>	<u>(1,775,556.82)</u>	<u>(1,937,180.26)</u>	<u>(1,388,705.03)</u>	<u>(9,840,031.85)</u>
INVESTING ACTIVITIES										
Marketable Securities - Decr/(Incr)	(1,014,077.65)	(455,443.74)	712,179.97	397,037.85	126,365.89	(705,748.43)	(325,081.61)	(73,250.87)	40,768.56	(1,297,250.03)
Fixed Assets - Decr/(Incr)	0.00	(19,984.51)	(5,824.83)	(8,679.95)	(15,311.25)	19,383.62	(48,144.76)	(48,020.61)	(14,890.00)	(141,472.29)
Shareholder Receivables - Decr/(Incr)	(276.53)	0.00	(7,011.68)	(38,840.10)	45,851.78	0.00	0.00	(1,575.37)	0.00	(1,851.90)
Inter-Company Receivables - Decr/(Incr)	(44,015.22)	0.00	(5,207.10)	(525.00)	0.00	(135,039.49)	(215,235.54)	(100,669.90)	(4,720.00)	(505,412.25)
Investing Cash Flow	<u>(1,058,369.40)</u>	<u>(475,428.25)</u>	<u>694,136.36</u>	<u>348,992.80</u>	<u>156,906.42</u>	<u>(821,404.30)</u>	<u>(588,461.91)</u>	<u>(223,516.75)</u>	<u>21,158.56</u>	<u>(1,945,986.47)</u>
FINANCING ACTIVITIES										
Notes Payable - Incr/(Decr)	24,030.00	1,862.01	(4,799.24)	(6,130.18)	(14,962.59)	0.00	0.00	0.00	(2,312.00)	(2,312.00)
Long-Term Debt - Incr/(Decr)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3,830.57	0.00	3,830.57
Due to Investors - Incr/(Decr)	292,553.57	387,433.88	416,968.10	1,454,969.57	2,403,211.94	2,359,953.28	1,854,086.14	2,948,568.51	876,275.52	12,994,020.51
Inter-Company Payables - Incr/(Decr)	0.00	0.00	0.00	2,094.00	0.00	10,345.00	0.00	0.00	0.00	12,439.00
Other Adjustments to Retained Earnings And Shareholder Payables - Incr/(Decr)	410,024.79	(26,061.76)	(126,415.81)	(45,106.69)	(34,048.65)	415.67	127.02	953.39	3,500.00	183,387.96
Financing Cash Flow	<u>726,608.36</u>	<u>363,234.13</u>	<u>285,753.05</u>	<u>1,405,826.70</u>	<u>2,354,200.70</u>	<u>2,370,713.95</u>	<u>1,854,213.16</u>	<u>2,953,352.47</u>	<u>877,463.52</u>	<u>13,191,366.04</u>
Beginning Cash	3,177.11	63,957.88	474,903.45	223,604.88	320,468.65	1,131,613.48	1,615,757.90	1,105,952.33	1,898,607.78	3,177.11
Operating Cash Flow	392,541.80	523,139.69	(1,231,187.98)	(1,657,955.73)	(1,699,962.29)	(1,065,165.23)	(1,775,556.82)	(1,937,180.26)	(1,388,705.03)	(9,840,031.85)
Investing Cash Flow	(1,058,369.40)	(475,428.25)	694,136.36	348,992.80	156,906.42	(821,404.30)	(588,461.91)	(223,516.75)	21,158.56	(1,945,986.47)
Financing Cash Flow	726,608.36	363,234.13	285,753.05	1,405,826.70	2,354,200.70	2,370,713.95	1,854,213.16	2,953,352.47	877,463.52	13,191,366.04
Comprehensive Cash Flow	<u>60,780.76</u>	<u>410,945.57</u>	<u>(251,298.57)</u>	<u>96,863.77</u>	<u>811,144.83</u>	<u>484,144.42</u>	<u>(509,805.57)</u>	<u>792,655.46</u>	<u>(490,082.95)</u>	<u>1,405,347.72</u>
Ending Cash	<u>63,957.87</u>	<u>474,903.45</u>	<u>223,604.88</u>	<u>320,468.65</u>	<u>1,131,613.48</u>	<u>1,615,757.90</u>	<u>1,105,952.33</u>	<u>1,898,607.79</u>	<u>1,408,524.83</u>	<u>1,408,524.83</u>

Operating and Investing Cash Flow

The following graph indicates the Operating and Investing Cash Flow from 1998 through 2006. As evidenced by the chart, combined Operating and Investing Cash Flow (the yellow line) was negative for virtually every year. Only 1999 showed a positive cash flow from Operating and Investing activities.

Operating Cash Flows for the years 1998 through 2000 are overstated as the unidentified deposits have been recorded as Revenue. These amounts are likely deposits from investors and should be treated as Liabilities. Reclassification of these transactions would result in negative Operating Cash Flows for all years from 1998 through 2006.

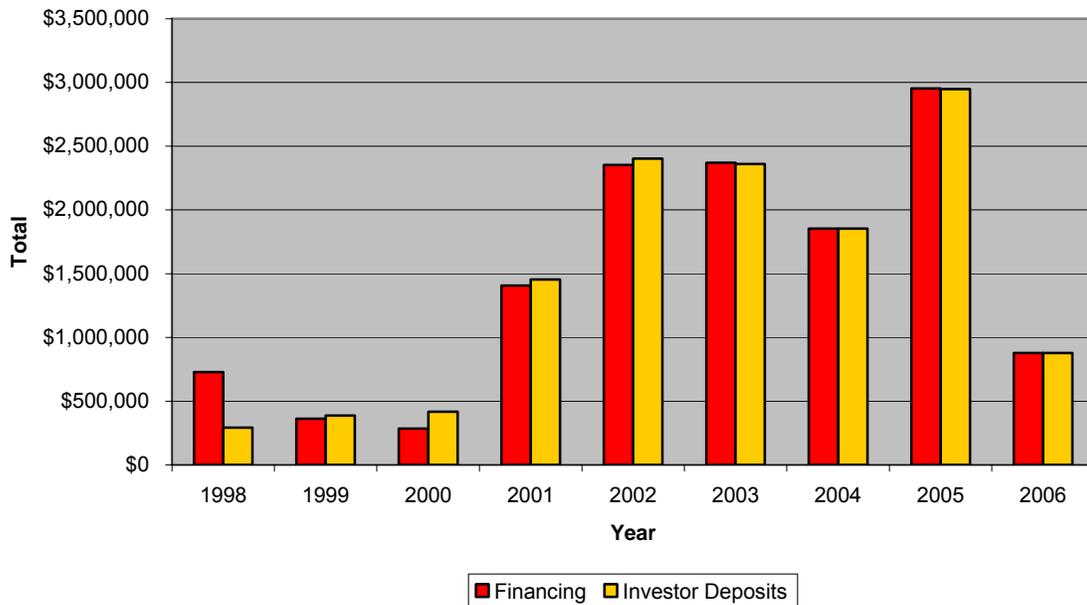
Operating and Investing Cash Flows



Financing Cash Flows

The following graph indicates the Cash Inflows from Financing and, specifically, the Cash Inflows from Investor Deposits.

Financing Cash Flow



As indicated in the graph above, Financing Cash Flows increased dramatically from the years 2000 through 2002. This increase is entirely attributable to the increase in net Investor Deposits. Net Investor Deposits are inflows from investors less distributions to investors.

Note: *Investor Deposits do not include amounts that were deposited directly with a financial institution (e.g. Charles Schwab, Ameritrade) in the name and under control of the investor. Investor Deposits, as referred to in this accounting, include those monies that were intended for a "private fund" investment OR that investors intended to be deposited with a financial institution in their name but never were.*

End of this section.

FORENSIC ACCOUNTING ANALYSIS AND TESTING

Throughout this Report and its attachments the terms “Estate” or “The Rhodes Entities” refer to the *entirety* of the receivership estate within the context of the previously referenced matter, unless otherwise indicated.

The Findings and Observations section summarizes the salient results of the Forensic Accounting Analysis executed by **financialforensics**®. The results are categorized into Empirical and Experiential subject areas and are supported by the Report body.

FINDINGS AND OBSERVATIONS

The summarized results of this Report section are indicated below, and are supported by the details contained in corresponding remainder of this section. The results are categorized into Empirical and Experiential segments for ease of reference.

The Empirical results are driven by objective, quantitative and statistical indications, and the Experiential results are driven by experience-based benchmarks. The Experiential results reflect the conclusions that parties with similar skill, knowledge, experience, education and training would reach upon their review of The Rhodes Entities' financial dataset.

EMPIRICAL RESULTS

The following Findings and Observations derived from empirical analysis that provided objective conclusions. They do not necessarily comprise the universe of findings, but are sufficiently illustrative for the Court's consideration in order to reach conclusions consistent with the Receiver.

- **Benford's Law** – The results of Benford's Law is explained in this section of the Report. Benford's Law is the DNA-equivalent technique for financial analysis of financial datasets. The results of the Benford's Law analysis clearly indicate that a significant portion of The Rhodes Entities' financial dataset contains artificial numbers. The artificial, or contrived, numbers are evidenced by the vast amount of duplicative and rounded entries.
- **Numeric Tests** – The Numeric Duplication Test and the Rounded Numbers Test are two additional tests that can be performed on numeric data sets. The Numeric Duplication Test is designed to identify abnormal duplications of certain numbers. The Rounding Test is designed to identify abnormal occurrences of rounded numbers and multiples. The results of these numeric tests are detailed in this section of the Report.

We have performed our empirical analysis upon two financial data sets of The Rhodes Entities as follows:

- ❑ **All Accounts** – Data set includes withdrawal activity for all bank accounts of entities in receivership and reported on in this accounting.²³ Data set includes 10,167 withdrawal records.
- ❑ **Non-Operating Accounts** – Data set includes withdrawal activity for all bank accounts of entities in receivership and reported on in this accounting except for the operating accounts of The Rhodes Company and Rhodes Econometrics. It is our opinion that a few accounts were utilized exclusively for the day-to-day operations of The Rhodes Company and Rhodes Econometrics. There is minimal activity in these accounts affecting the outflow of “private fund” investor monies. Data set includes 4,760 withdrawal records.

All forensic accounting analysis charts and graphs are reproduced in their entirety in Exhibit B to this report for enhanced readability.

BENFORD'S LAW

Benford's Law is an analytical technique identified in the late 1800s and developed during the 1920s by Frank Benford, a physicist at General Electric research laboratories. He noted that the first few pages of logarithm table books were more worn than the later pages. In those days, logarithm table books were used to accelerate the process of multiplying 2 large numbers by summing the log of each number and then referring to the table for the requisite integer.

Benford's Law states that digits and digit sequences in a dataset follow a predictable pattern. The technique applies a data analysis method that identifies possible errors, potential fraud or other irregularities. For example, if artificial values are present in a dataset the distribution of the digits in the dataset will likely exhibit a different shape (when viewed graphically), than the shape predicted by Benford's Law. Benford proved his theory by using 20 lists containing 20,229 numbers, and produced the statistical array that is still applied today.

The technique counts digit sequences of values in the dataset and compares the totals to the predicted result according to Benford's Law. Non-zero digits are counted from left to right.

Despite its origin in the 1920s, Benford's Law was not recognized as an effective tool for audit and fraud analysis until the late-1990s. Based upon our analysis of The Rhodes Entities' financial datasets, they match the data conformity necessary to apply Benford's Law as summarized below:

- ❑ The data sets represent the sizes of similar phenomena.
- ❑ The data sets must preclude built-in minimum or maximum values.
- ❑ The data sets do not represent assigned numbers.

²³ Analysis does not include activity from Dollhouse Ventures, LLC.

The analysis of the output is based upon 5 Major Digital Tests. The output of the tests and resultant conclusions using The Rhodes Entities' financial datasets are presented below.

Results of Applying Benford's Law

Based upon the analysis of Benford's Law applied against 100% of the foundational transaction entries within The Rhodes Entities it is clear that there are anomalies present in the data sets. The implications of the anomalies lead to the following observations:

1. A significant proportion of The Rhodes Entities' foundational transaction data may be contrived or invented.
2. The proportion of The Rhodes Entities' transactions containing "rounded" numbers appears to be excessive. Such condition may not be troubling for deposits since investors might be expected to make deposits in round numbers. However, excessive rounding in withdrawals is less likely.

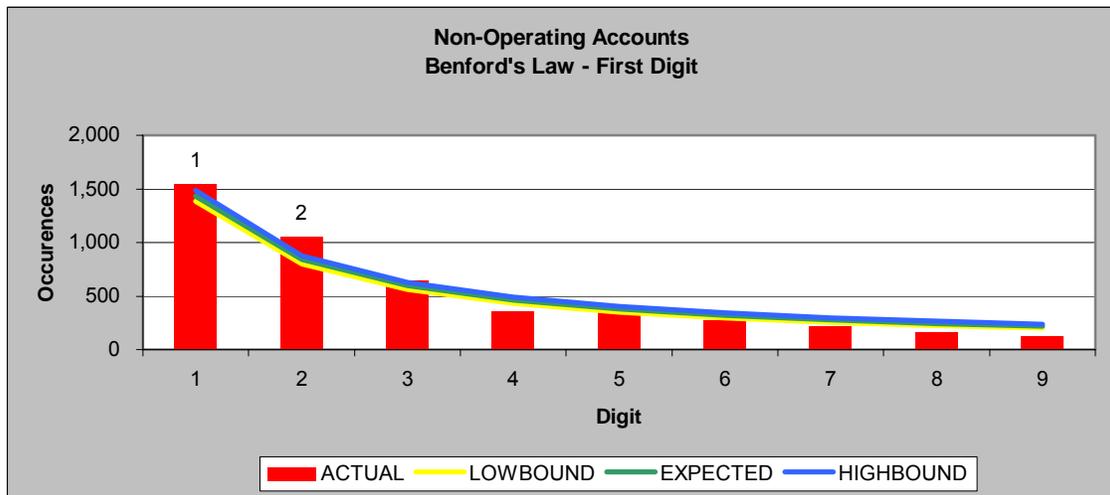
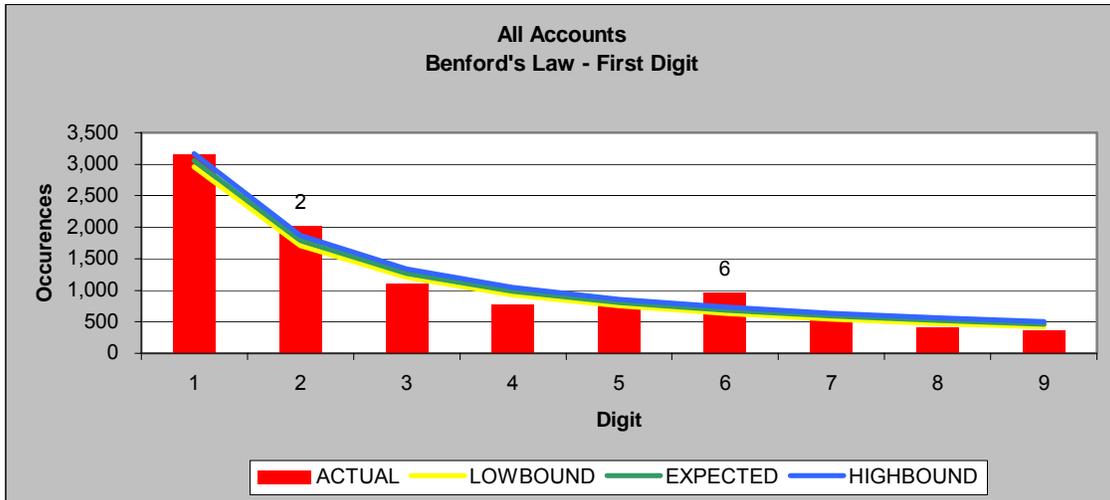
Major Digital Tests

The digital analytical tests applied through Benford's Law are comprised of the following:

- ❑ **First Digits Test** - The first Major Digital Test is a test of the first digit proportions, a test for reasonableness. The first digit of a number is the leftmost digit with the understanding that the first digit can never be a zero. For example, the first digit of 7,380 is "7."
- ❑ **Second Digits Test** - The second Major Digital Test is a test of the second digit proportions, also a test for reasonableness. The second digit of a number is likewise determined by its placement within the number, thus the second digit of 7,380 is "3."
- ❑ **First 2 Digits Test** – This test is more focused than the 2 preceding tests and uses the first 2 leading digits, again excluding zeros. For example, the first 2 digits of 7,380 are "73" and the first 2 digits of 0.07380 are also "73." There are 90 possible first-two digit combinations: 10 to 99 inclusive. This test finds anomalies in the data that are not readily apparent from either the first or second digits seen on their own.
- ❑ **First 3 Digits Test** – This test focuses on the 900 possible first 3 digit combinations: 100 to 999 inclusive. This highly focused test indicates abnormal duplications.
- ❑ **Last 2 Digits Test** – This test is to find invented and/or rounded numbers. There are 100 possible last two digit combinations, 00 to 99 inclusive. For the last two digits, any bias in occurrence is assumed to be insignificant. As such, the expected proportion for each possible last two digit combination is 0.01. For number with dollars and cents, the last two digits are typically the cents. However, for purposes of our analysis, we have ignored the cents and tested the last two numbers prior to the cents. Typically the test is more effective on data sets of whole numbers.

First Digits Test

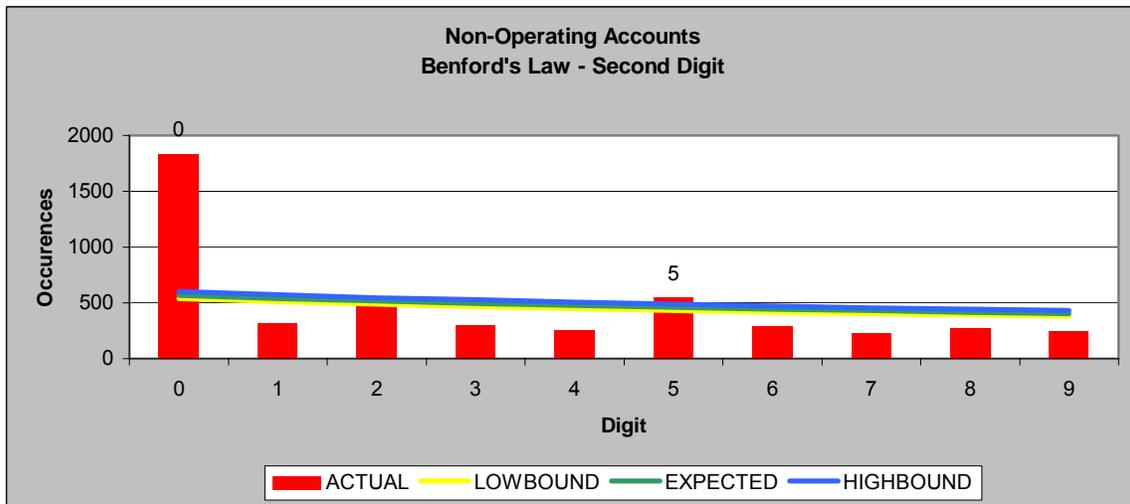
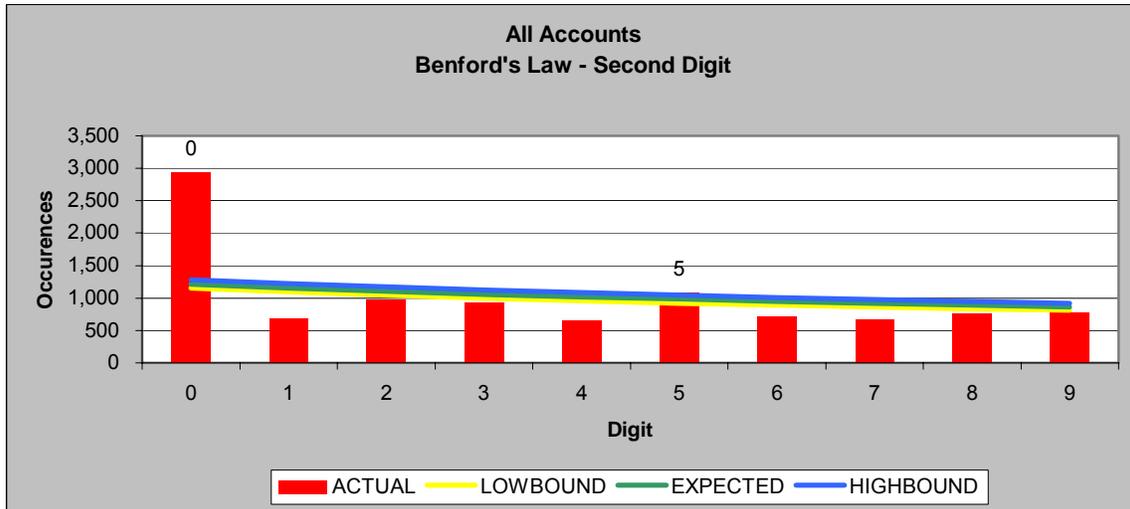
The results of the First Digit Test are indicated by the graphs below. Applying the testing criteria indicates that the variations from the predicted norm suggest that anomalies may exist throughout The Rhodes Entities' financial datasets.



The preceding graphs indicates (among other observations) that the digits "1", "2" and "6" all exceed the expected counts. Additionally, the digits "4" and "9" fall below the predicted limit, thus suggesting that anomalies may exist within The Rhodes Entities' financial datasets.

Second Digits Test

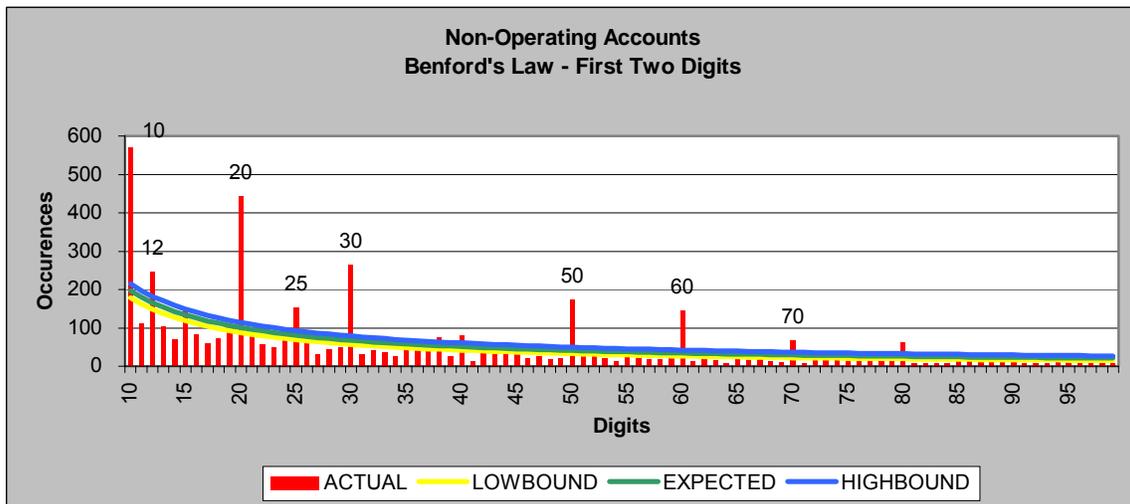
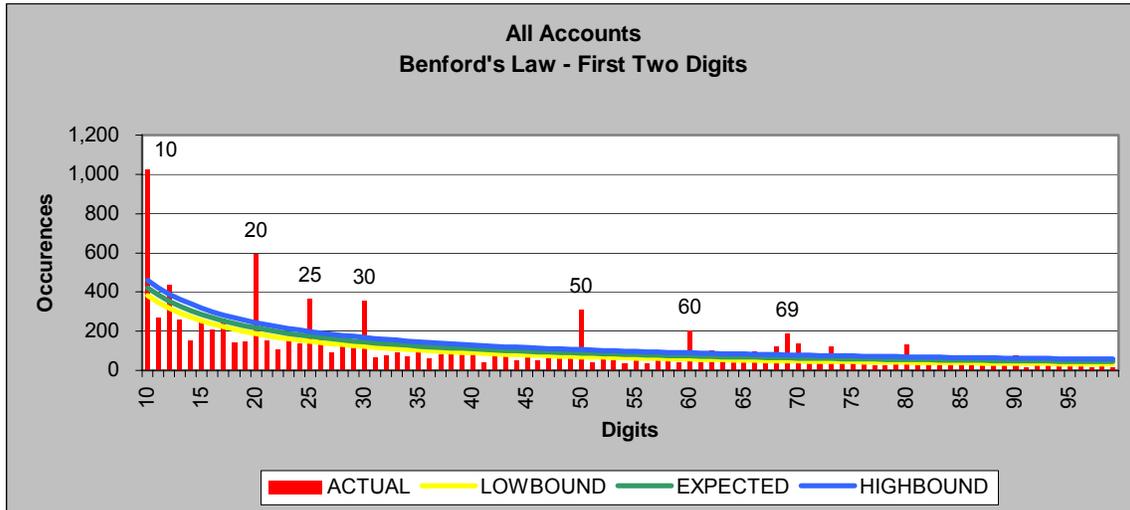
The results of the Second Digit Test are indicated by the graph below. Applying the testing criteria indicates that the variations from the predicted norm suggest that anomalies exist throughout The Rhodes Entities' financial datasets.



The preceding graph indicates (among other observations) that the digits "0" and "5" both exceed the expected counts. For example, an inordinately large amount of payments contained "0" or "5" as a second digit such as 10,000 or 15,000. The second digit "0" appears in excess of 250% the expected norm for the "All Accounts" data set and over 300% the expected norm for the "Non-Operating Accounts" data set.

First 2 Digits Test

The results of the First 2 Digits Test are indicated by the graph below. Applying the testing criteria indicates that the several significant variations from the predicted norm suggest that anomalies may exist throughout The Rhodes Entities' financial data sets.

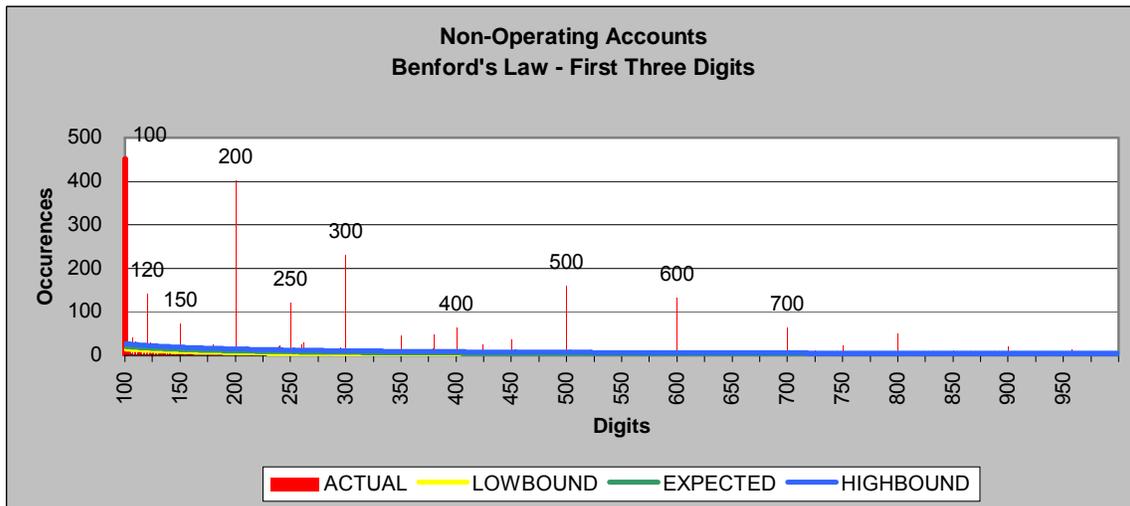
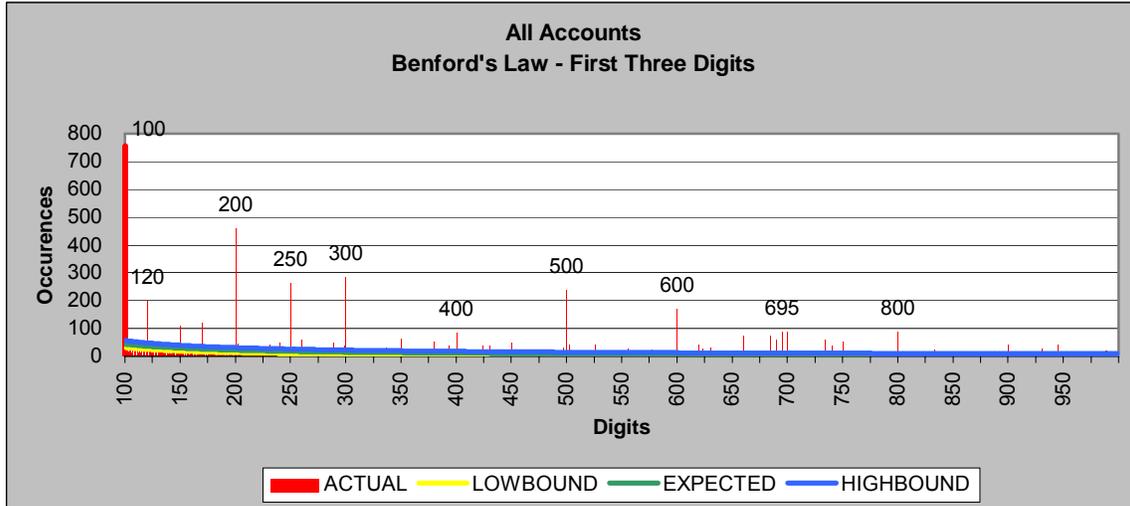


The preceding graph indicates (among other observations) that the digits “10”, “20”, “25”, “30”, “50” and “60” all exceed the predicted limit, thus suggesting that anomalies may exist within The Rhodes Entities' financial data sets.

Note that there were 639 transactions beginning with the digits “20”. Over 38% of these transactions, 2.3% of all withdrawal transactions, were Cash Withdrawals from bank accounts, predominately ATM withdrawals in the amount of \$200.00.

First 3 Digits Test

The results of the First 3 Digits Test are indicated by the graph below. Applying the testing criteria indicates that the several variations from the predicted norm suggest that anomalies could occur throughout The Rhodes Entities' financial data sets.

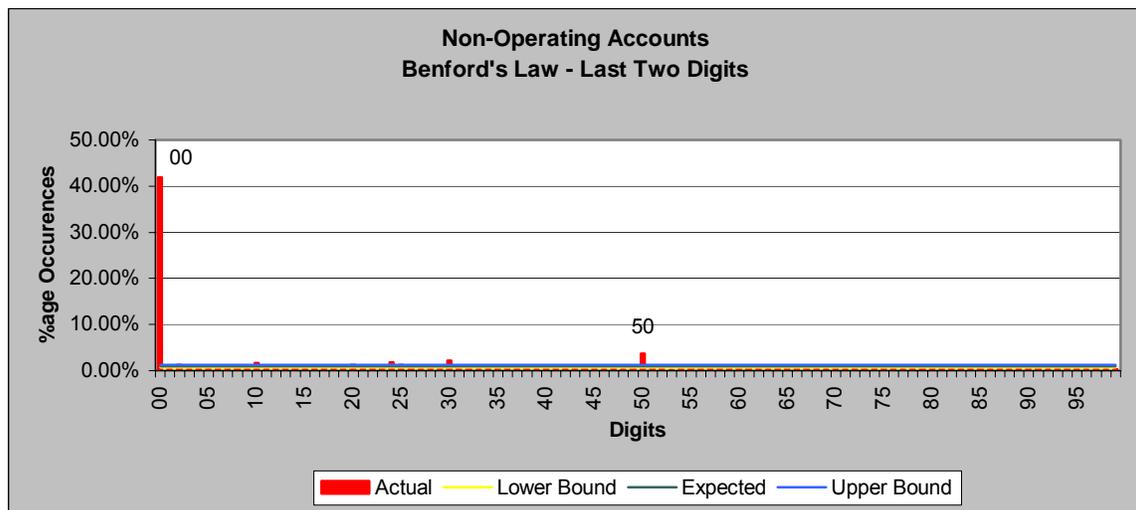
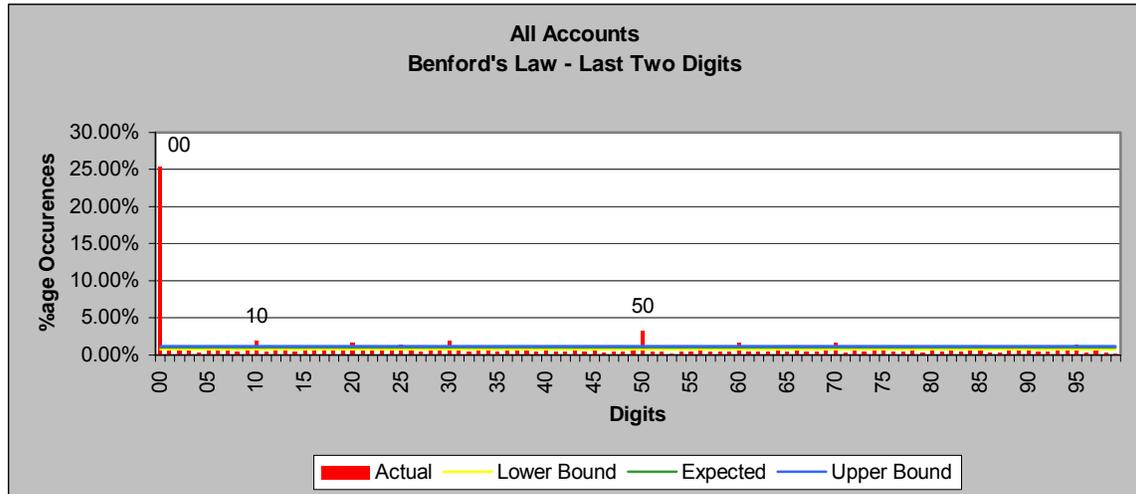


The preceding graph indicates (among other observations) that the digits “100”, “200”, “250”, “300”, “500” and “600” all exceed the predicted limit, thus suggesting that anomalies may exist within The Rhodes Entities' financial data sets.

Over 240 of the withdrawal transactions began with the first three digits of “500”. Of these transactions, 105 withdrawal transactions were in the amount of \$5,000.00. These transactions were primarily distributions to investors or transfers to other bank accounts.

Last 2 Digits Test

The results of the Last 2 Digits Test are indicated by the graphs below. Applying the testing criteria indicates that the several variations from the predicted norm suggest that anomalies could occur throughout The Rhodes Entities financial data sets.



The digits "00" and "50" appear as the last two digits well in excess of the predicted norm. In fact, the digits "00" appear as the last two digits for over 25% and 40% of the All Accounts and Non-Operating Accounts data sets, respectively. This indicates that anomalies may exist in The Rhodes Entities' data sets.

NUMERIC TESTS

The Numeric Tests are comprised of 2 key examinations, e.g. a Numeric Duplication Test and a Rounded Numbers Test. Once any significant duplication has been identified, meaningful inferences can be drawn through further investigation.

The Numeric Duplication Test is used to identify abnormal recurrences of specific numbers. The objective is to draw attention to small groups of numbers that appear to be unusual.

The Rounded Numbers Test operates on the same premises as the Numeric Duplication Test. However, the objective is to identify abnormal recurrences of *rounded* numbers. Abnormal recurrences of rounded numbers are good indicia of estimation since people tend to estimate when they create contrived numbers.

Results of Applying Numeric Tests

The Numeric Tests were both applied against 100% of The Rhodes Entities' foundational withdrawals transaction entries. The implications of the results lead to the following observations:

1. There appears to be significant duplication of numbers.
2. There appears to be significant use of rounded numbers.

Presented on the following pages are the results from the Numeric Duplication Test and the Rounded Numbers Test. Only the results for the "All Accounts" data set are presented on the following pages. The results for the "Non-Operating Accounts" data set can be found in Exhibit B to this report.

The Numeric Duplication Test results are presented by Number of Duplicate Records and the Aggregate Amount for Duplicate Records. The first 60 results for each approach are presented on the following page.

MICHAEL A. GRASSMUECK
Forensic Accountants' Report – C. Wesley Rhodes, Jr.
March 30, 2007

Numeric Duplication Test
The Rhodes Entities - All Accounts

Sorted by Number of Duplicates		
Payment Amount	# of Records	Aggregate of Payments
1.00	414	414.00
200.00	263	52,600.00
1,000.00	208	208,000.00
100.00	171	17,100.00
10,000.00	154	1,540,000.00
10.00	116	1,160.00
2,500.00	116	290,000.00
1,200.00	115	138,000.00
300.00	114	34,200.00
5,000.00	105	525,000.00
2,000.00	104	208,000.00
250.00	101	25,250.00
170.00	97	16,490.00
600.00	91	54,600.00
500.00	84	42,000.00
30.00	82	2,460.00
3,000.00	68	204,000.00
6,000.00	56	336,000.00
69.00	54	3,726.00
8,000.00	48	384,000.00
2.00	46	92.00
289.00	45	13,005.00
700.00	41	28,700.00
50.00	39	1,950.00
4,000.00	39	156,000.00
20,000.00	36	720,000.00
3,802.85	35	133,099.75
7,000.00	34	238,000.00
15,000.00	34	510,000.00
29.95	32	958.40
431.00	32	13,792.00
3.00	30	90.00
20.00	30	600.00
1,000.37	30	30,011.10
1,500.00	30	45,000.00
120.00	29	3,480.00
202.73	29	5,879.17
1,001.11	29	29,032.19
7.50	28	210.00
503.36	28	14,094.08
684.76	28	19,173.28
684.90	28	19,177.20
695.65	28	19,478.20
695.81	28	19,482.68
26.61	26	691.86
734.88	26	19,106.88
660.44	25	16,511.00
12,000.00	25	300,000.00
393.29	24	9,438.96
556.17	24	13,348.08
660.29	24	15,846.96
945.13	24	22,683.12
10,700.00	24	256,800.00
350.00	23	8,050.00
623.69	23	14,344.87
734.22	23	16,887.06
80.00	22	1,760.00
240.00	22	5,280.00
336.69	22	7,407.18
3,500.00	22	77,000.00

Sorted by Aggregate of Payments		
Payment Amount	# of Records	Aggregate of Payments
900,000.00	5	4,500,000.00
10,000.00	154	1,540,000.00
20,000.00	36	720,000.00
100,000.00	7	700,000.00
300,000.00	2	600,000.00
25,000.00	22	550,000.00
5,000.00	105	525,000.00
15,000.00	34	510,000.00
30,000.00	16	480,000.00
205,000.00	2	410,000.00
200,000.00	2	400,000.00
194,289.84	2	388,579.68
8,000.00	48	384,000.00
120,000.00	3	360,000.00
6,000.00	56	336,000.00
12,000.00	25	300,000.00
2,500.00	116	290,000.00
145,000.00	2	290,000.00
10,700.00	24	256,800.00
126,036.84	2	252,073.68
50,000.00	5	250,000.00
40,000.00	6	240,000.00
7,000.00	34	238,000.00
118,000.00	2	236,000.00
55,000.00	4	220,000.00
105,000.00	2	210,000.00
1,000.00	208	208,000.00
2,000.00	104	208,000.00
3,000.00	68	204,000.00
18,000.00	10	180,000.00
45,000.00	4	180,000.00
88,560.00	2	177,120.00
35,000.00	5	175,000.00
9,000.00	19	171,000.00
80,000.00	2	160,000.00
4,000.00	39	156,000.00
13,000.00	12	156,000.00
75,000.00	2	150,000.00
28,000.00	5	140,000.00
1,200.00	115	138,000.00
27,000.00	5	135,000.00
3,802.85	35	133,099.75
65,880.00	2	131,760.00
65,000.00	2	130,000.00
16,000.00	8	128,000.00
41,000.00	3	123,000.00
11,000.00	11	121,000.00
60,000.00	2	120,000.00
38,500.00	3	115,500.00
32,000.00	3	96,000.00
19,000.00	5	95,000.00
46,000.00	2	92,000.00
43,000.00	2	86,000.00
42,000.00	2	84,000.00
26,000.00	3	78,000.00
3,500.00	22	77,000.00
4,500.00	17	76,500.00
7,500.00	10	75,000.00
23,500.00	3	70,500.00
34,000.00	2	68,000.00

Presented below are some of the findings and observations resulting from the Numeric Duplication Tests and further investigation into the same.

- Many of the duplicate debits for \$1, \$2, \$10, and \$20 are bank charges. A large sum of these bank charges are overdraft protection fees, wire transfer fees and cashier check fees. From this we can derive that The Rhodes Entities lacked the capability or desire to properly manage its cash flows, as illustrated by the amount of Overdraft Protection Fees, and that The Rhodes Entities transacted numerous wire transfers and cashiers checks.
- Upon further analysis, it was determined that many of the transactions for amounts of \$100, \$200, \$300 and \$600 were cash withdrawals. The cash withdrawals were predominately made from PPS or entities other than The Rhodes Company or Rhodes Econometrics. In total there are over 550 Cash Withdrawal transactions equating to over 5% of the total transactions recorded.
- Many of the larger rounded numbers are actually inter-company or inter-account bank transfers. Given the inordinate amount of commingling, it was commonplace for large sums of money to be transferred between the various entity accounts.

Typically “private fund” investor monies were deposited into one of the two PPS accounts. The funds were then transferred from these accounts to other entity operating accounts to pay various expenditures, including payroll and significant asset purchases, on an as-needed basis.

Upon closer examination of these transactions, it is apparent that there was a lack of planning and accountability pertaining to these transfers. Further, since there were never any check registers kept for any entities other than The Rhodes Company and Rhodes Econometrics, the entities’ finances were loosely coordinated through the balances in the bank, thus resulting in the numerous bank charges.

- In some instances, the number of duplicate transactions for an amount may not be deemed significant. However, the aggregate value of these transactions has made them noteworthy. For example, there are only five transactions for \$900,000 totaling \$4,500,000. The aggregate value of these transactions is slightly more than eight percent of all debit transactions for the entities. Four of these transactions were deposits into investments accounts with Ameritrade from the PPS bank accounts. Shiftily, it was represented to the SEC that these deposits totaling \$3,600,000 actually came directly from individual investors.
- Virtually all payments for \$170 were the monthly rent on an offsite storage facility.
- The 154 withdrawals in the amount of \$10,000, aggregating to \$1,540,000, are primarily comprised of inter-account transfers, distributions to investors and payments of personal credit cards or personal and business credit lines.

Results of Applying Rounded Numbers Test

The results of the Rounded Numbers Test applied to All Accounts are as follows.

Rounded To	# of Records	Aggregate of Payments	Actual Proportion	Expected Proportion	Direction
10s	3,496	\$32,944,540	32.10%	10.00%	over
25s	2,940	\$32,357,325	27.00%	4.00%	over
100s	2,486	\$31,267,100	22.83%	1.00%	over
1000s	1,146	\$27,026,000	10.52%	0.10%	over

The withdrawals rounded to “10s” totaled 3,496 records or 31.20% of all withdrawal transactions. Even more significant, over 10% of all withdrawal transactions were rounded to the “1,000s”. This is over 100 times the expected proportion of 0.10%. Less than 30% of these withdrawals were distributions to investors. The remaining 70% of these withdrawals were predominately transfers to other bank accounts or payments on credit cards and other debts

EXPERIENTIAL RESULTS

The following Findings and Observations derived from empirical analysis that provided objective conclusions. They do not necessarily comprise the universe of findings, but are sufficiently illustrative for the reader’s consideration in order to reach conclusions consistent with our observations.

Further, the Experiential results reflect the conclusions that parties with similar skill, knowledge, experience, education and training would reach upon their review of The Rhodes Entities’ financial data set.

- **Lack of Internal Financial Controls-** Defendants failed to implement basic internal financial controls appropriate for The Rhodes Entities’ business and financial characteristics. Examples of such failures include:
 - Lack of Basic Financial Record Keeping – No books or records were available for five of the seven Rhodes Entities. As such, the following information was not available:
 - Common accounting system to account for funds received and expended.
 - Tracking and reconciliation of intercompany transfers.
 - Routine bank reconciliations for the numerous bank accounts, thus resulting in numerous “overcharge” or “NSF” fees.
 - Sufficient detail on numerous cashier’s checks and wire transfers.
 - Sufficient detail on numerous cash withdrawals and use of said funds.

- Incomplete and Erroneous Books – The accounting files **financialforensics®** received for The Rhodes Company and Rhodes Econometrics were incomplete and contained numerous erroneous entries.
- Failure to File Income Tax Returns – No tax returns or related filings were available for PPPS, Corvette Specialties, Northwest Muscle Cars or Resource Transactions. The Receiver only received one tax return for Crossed Flags Farm.
- **Ponzi Scheme Indicia** – During the preparation of this accounting and related investigation of The Rhodes Entities, we have encountered indicia of a Ponzi Scheme defined as follows:
 - **Ponzi Scheme** – Generally defined as an illegal business practice in which new investors' money is used to make payments to earlier investors. A simple investment scam rakes in as much money as possible and then disappears. A Ponzi stays in business by turning some of the money back into the game. A few conspicuous rewards early on will whip up interest, the business will grow, and then, if they're smart and lucky, the operators will split.

Everyone involved pretends to mount a legitimate organization, but little or no commercial activity takes place. Payoffs are made from the pool of investor funds; the rest is siphoned into operators' pockets. Schemes may run for at least a year. Some Ponzis have flourished for a decade or more.

In accounting terms, money paid to Ponzi investors, described as income, is actually distribution of capital. It's like giving away the store. Instead of sharing profits, you're sharing cash reserves.²⁴

- **Ponzi Schemes** – A type of illegal pyramid scheme named for Charles Ponzi, who duped thousands of New England residents into investing in a postage stamp speculation scheme back in the 1920s. Ponzi thought he could take advantage of differences between U.S. and foreign currencies used to buy and sell international mail coupons. Ponzi told investors that he could provide a 40% return in just 90 days compared with 5% for bank savings accounts. Ponzi was deluged with funds from investors, taking in \$1 million during one three-hour period—and this was 1921! Though a few early investors were paid off to make the scheme look legitimate, an investigation found that Ponzi had only purchased about \$30 worth of the international mail coupons.

Decades later, the Ponzi scheme continues to work on the "rob-Peter-to-pay-Paul" principle, as money from new investors is used to pay off earlier investors until the whole scheme collapses.²⁵

- **Ponzi Scheme** – A fraudulent investment operation that involves paying abnormally high returns ("profits") to investors out of the money paid in by

²⁴ Fraud Examiners Manual. (Association of Certified Fraud Examiners – 1998). P. 1.1740.

²⁵ <http://www.sec.gov/answers/ponzi.htm>

subsequent investors, rather than from net revenues generated by any real business, named after Charles Ponzi.²⁶

The various Ponzi Scheme indicia encountered during the course of our accounting and investigation include, but are not limited to:

- **Initial investors are paid with subsequent investors' money** – Distributions to “private fund” investors were made irrespective of source of the funds. For the period of this accounting, the net amount due to investors significantly exceeded the amount of cash and investment accounts held by The Rhodes Entities.
- **Masquerading as some type of investment** – Many investors believed that they were investing in “The Diamond Portfolio”, bonds, stocks or some combination thereof contrary to reality. The investor statements prepared by Mr. Rhodes often purported the same.
- **Abnormally high returns** – The investor statements often purported rate of returns in excess of 25% despite the general lack of actual securities held to generate such returns.
- **Payoffs made from the pool of investor funds while the remainder is siphoned into operators' pockets** – “Private fund” investor monies were predominately deposited into one bank account. Distributions were made to investors from this bank account regardless of the timing of their initial investments. Furthermore, monies were often transferred to other Rhodes Entities or expended for the personal use of Mr. Rhodes.

End of Section

²⁶ <http://en.wikipedia.org>

FINDINGS AND OBSERVATIONS

FINDINGS

The following items highlight the key findings that surfaced during the construction and analysis of The Rhodes Entities financial and accounting records. More details can be found in the remainder of this report.

- ❑ The Rhodes Entities received over \$27,335,000 of “private fund” investor deposits during the period of this accounting.
- ❑ The Rhodes Entities distributed over \$14,341,000 to “private fund” investors during the period of this accounting. These distributions were often made irrespective of the source of funds and many of the distributions pertained to deposits made prior to 1998.
- ❑ At the appointment of the Receiver, The Rhodes Entities possessed \$2,743,684 in cash and investment accounts.
- ❑ Over \$5,448,000 was expended from The Rhodes Entities for the personal use of C. Wesley Rhodes, Jr. and/or his family during the period of this accounting.
- ❑ In preparing The Rhodes Entities’ accounting, 167 vehicle-related disbursements have been identified, totaling \$3,286,075.
- ❑ Nominal, if any, meaningful financial records were available for The Rhodes Entities. Accounting records were only available for two of The Rhodes Entities, and those were incomplete and erroneous. No financial records were provide for three of The Rhodes Entities, including the entity predominately handling the “private fund” investor monies.

CONCLUSIONS

The following items highlight the key conclusions that resulted from the construction and analysis of The Rhodes Entities’ records. More details can be found in the remainder of the report.

- ❑ Mr. Rhodes was negligent with respect to keeping even primitive financial records for most entities included in this accounting. Mr. Rhodes’ conduct reveals that he either failed to preserve even primitive records for various investors, or that he has not produced such records.
- ❑ Receipts and funds flow have been indiscriminately commingled among the various Rhodes Entities.
- ❑ Throughout the period of this accounting, the net amount due from The Rhodes Entities to “private fund” investors significantly exceeded the actual amount that The Rhodes Entities held in cash and investment accounts.

- The periodic statements issued to “private fund” investors were largely contrived. There is no evidence that income and/or changes in investment value occurred as purported on these statements. Furthermore, The Rhodes Entities did not hold sufficient investments to support the purported account balances. As such, these statements are by and large fictitious and not reflective of actual investment balances for the “private fund” investors.

- Our investigation of The Rhodes Entities has revealed indicia of a Ponzi Scheme including, but not limited to; initial investors are paid with subsequent investors' money, masquerading as some type of investment, unrealistic returns, and payoffs are made from the pool of investor funds while the remainder is siphoned into operators' pockets.

End of this section.

CURRENT FINANCIAL POSITION OF THE ESTATE

The Current Financial Position of the Estate section details the existing assets and liabilities of the Estate as well as the cash receipts and disbursements of the Estate since appointment of the Receiver. The information is encapsulated within the Summary of Financial Position and the Summary of Cash Receipts and Disbursements schedules. Additional supporting schedules are provided as deemed appropriate.

These schedules attempt to capture all financial activity of the receivership through the date of this report; henceforth, the cut-off date for information approximates the report date. There are some exceptions to this statement as cut-off dates had to be chosen for certain accounts in order to facilitate completion of the report. For example, the cash balance and the receipt and disbursement activity are reported as of March 9, 2007. If there was not a report cut-off date for the cash activity, we would be continuously updating the report through publication to account for the subsequent receipts and disbursements.

These statements do not reflect administrative liabilities owed to the receivership professionals or pre-receivership unsecured and contingent unliquidated claims.

SUMMARY OF FINANCIAL POSITION

Exhibit C details the assets and related liabilities of the Estate as of the report date.

- **Cash Balance** – As previously stated, this is the current balance of all Estate cash accounts under control of the Receiver. This includes amounts transferred to the Receiver from frozen bank and investment accounts.
- **Fixtures and Equipment** – The Receiver has taken possession of all fixtures and equipment that were onsite at the Rhodes Econometrics' office. These assets are not presented on the Balance Sheet as preliminary values have not been derived yet. For a complete inventory of all fixed assets from the Rhodes Econometrics' office and Mr. Rhodes' personal residence, please refer to Exhibit B of the Preliminary Report of Receiver dated October 25, 2006.
- **Vehicles** – The Receiver and his representatives have identified numerous collector cars and other vehicles in association with this receivership. The Receiver has secured and insured these assets as appropriate. Refer to Exhibit B of the Preliminary Report of Receiver dated October 25, 2006 for a complete list of the vehicles.

Despite the fact that these vehicles were predominately purchased with funds from The Rhodes Entities, virtually all vehicle titles are held in the name of C. Wesley Rhodes Jr. or jointly in the names of C. Wesley Rhodes, Jr. and Anne Rhodes. The Receiver and his counsel are seeking full release of all vehicles due to the ultimate source of funds used for purchase. Furthermore, Mr. Rhodes has represented that the collector cars are assets of the PPPS partnership.

Due to the unique luxury and/or collector status of these vehicles, the Receiver has not assigned a value on each. The value of each vehicle can vary widely depending on demand, vehicle lineage, market fluctuations, distribution channel and myriad of other factors. However, the Receiver has communicated with multiple experts regarding liquidation of the car collection and has received value estimates ranging from \$3 million to \$6 million for the entire lot.

- **Contingent Assets** - The Receiver has identified various items, including real property, investments in various business operations and potential actions against third parties, that are best identified as Contingent Assets that although potentially representing a source of funds to the Estate though they are presently sufficiently undefined to warrant the designation of contingent. Certain business interests include, but are not limited to, the following:
 - Groves Lake Oswego Veterinary Clinic, P.C.
 - Forest Heights Veterinary Clinic, P.C.
 - Village at Main Veterinary Hospital, P.C.
 - Veterinary Clinic Properties, LLC
 - Veterinary Management Company of Oregon, LLC
 - Estates in Miniature, LLC

Certain real properties include, but are not limited to, the following:

- Rhodes personal residence – West Linn, Oregon
- Residence – King City, Oregon
- Interest in Beach Home – Neskowin Beach, Oregon

SUMMARY OF CASH RECEIPTS AND DISBURSEMENTS

Exhibit D summarizes the cash receipts and disbursements of the Estate subsequent to the Receiver's appointment. The schedule is presented on a cash basis with no accrual for future revenues or expenditures.

- **Balances Transferred from Frozen Accounts** – When the Court issued the Temporary Restraining Order, the SEC and Receiver Team contacted all known financial institutions of The Rhodes Entities and notified them to freeze all bank and investment accounts in accordance with the Order.
- **Collection of Receivables** – The Receiver has collected amounts owing to The Rhodes Company and Rhodes Econometrics for advisory fees.
- **Loans** – The Receiver is managing monies for Estates in Miniature as there is confidence that the receivership has an equity interest in the entity. Another party may also have interest in this entity and has agreed to loan the entity money in order to liquidate the remaining inventory.
- **Copying and Reproduction** – Significant expenses have been incurred to copy records from the Rhodes Econometrics office. Additionally, various financial institutions have charged the receivership for production of documents.

- **Payroll and Payroll Taxes** – Upon appointment, the Receiver temporarily retained a couple of employees of The Rhodes Entities. The Receiver paid payroll for these persons as well as prior payroll taxes due for The Rhodes Company and Rhodes Econometrics.
- **Insurance** – The Receiver obtained insurance policies on key assets, including but not limited to, the automobiles.
- **Rent and Utilities** – The Receiver paid the office rent and related utilities for Rhodes Econometrics to facilitate review of documents and records onsite prior to shipping to storage. Subsequently, the Receiver has paid for the storage of various assets and records of the entities.
- **Security** – The Receiver invested in a security system and related monitoring services to secure the automobiles subject to this receivership.
- **Other Expenditures** – The Receiver has accrued and paid other expenditures during the course of administration of the Estate. The Receiver also employed the services of legal counsel and other professional service firms to assist with the administration of the Estate. These expenses have not yet been accrued or paid by the Estate.

CLOSING

financialforensics® appreciates the opportunity to submit this Report, and will keep the Receiver apprised of progress on the subsequent actions expected to be necessary.

With professional regards,



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Principal



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