RECEIVER'S REPORT ON INCOME, EQUITY AND FUND TRANSFERS BY NATIONAL NOTE OF UTAH AND AFFILIATED ENTITIES

R. WAYNE KLEIN, Receiver

United States District Court, District of Utah
Case No. 2:12CV591

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I. MY ROLE AS RECEIVER

On June 25, 2012, the U.S. District Court of Utah appointed me as Receiver for National Note of Utah and approximately 40 affiliated entities. At that time, I took control of the companies, their assets, and their business records. Since June 2012, I have been investigating the business operations conducted by National Note and its affiliates and have analyzed the financial activities of the companies.

This report summarizes key information that I have learned regarding the financial activities and financial conditions of National Note and its affiliates from 1995 through June 25, 2012. The first part of this report details the income and equity of National Note and the 17 affiliates that owed money to National Note as reflected in notes payable to National Note. The financial conditions of affiliates who did not sign promissory notes to National Note, but still had substantial financial interaction with National Note are discussed in a separate document at Appendix A. The second part of this report summarizes fund transfers by National Note and its affiliates. In this report, the specific entity National Note of Utah, LC is referred to as N. Note ("N. Note") while N. Note and its affiliated entities as an aggregated enterprise are referred to as NNU ("NNU").

II. THE BUSINESS OF NATIONAL NOTE OF UTAH

From its earliest days, N. Note solicited money from investors, giving them promissory notes as evidence of their investments—promissory notes that generally paid a 12% rate of return.[1] The rate of return on the notes was fixed; it did not vary over the years with fluctuations in the economy or the returns being paid by competing investments, such as savings accounts, stock market indices, or the bond markets. The promised rate of return also was not dependent

[1] In some cases, investors were offered higher interest rates on their promissory notes. Some received as much as 18% interest.

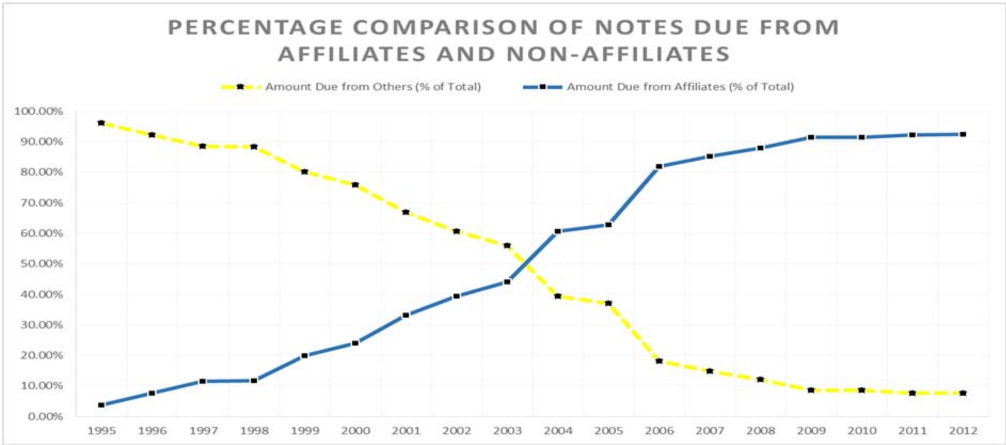
on the profitability of N. Note; investors were guaranteed their 12% interest regardless of whether N. Note earned profits.

In order to pay the 12% interest promised to investors and cover the operating expenses of N. Note, the company needed to generate rates of return significantly higher than 12%. Between 1995 and 2012, N. Note pursued a variety of investment endeavors in search of high returns. Initially, N. Note sought to earn high profits by purchasing existing loans at discounts. Later, N. Note tried a succession of other projects: originating mortgage loans, acquiring and operating rental properties, developing properties that NNU acquired through foreclosure, purchasing real estate for development by NNU, engaging in commodities speculation, buying distressed real estate, buying and operating a mint, attempting to buy gold at significant discounts from African sources, and seeking to extract palladium from previously-processed mine tailings.

Generally, the investment endeavors were carried out through NNU affiliates. The vast majority of the real estate development, precious metals minting, mortgage lending, palladium extraction efforts, searches for African gold, and other ventures were carried out by affiliates. N. Note provided the funding that allowed the affiliates to pursue these investment endeavors. N. Note's primary role remained obtaining money from investors and loaning that money to others—such as affiliates—at higher rates. When N. Note loaned money to its affiliates and others, N. Note recorded those notes receivable as assets. The overwhelming majority of N. Note's assets consisted of notes receivable from others.

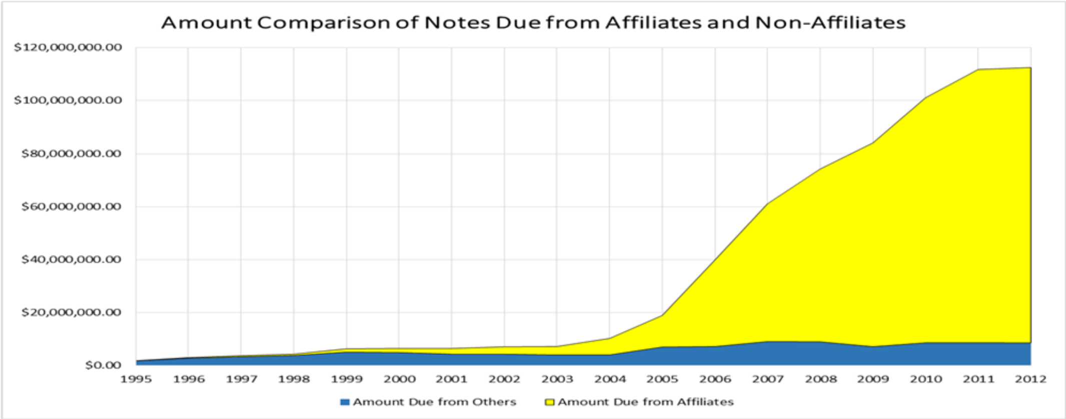
In the early years of its operations, most of N. Note's loans were made to non-affiliated entities. In 1995, the amounts that N. Note loaned to affiliated companies was $70,000.00, representing only 3.8% of the total notes receivable owed to N. Note. The percentage of notes receivable owed by affiliates grew steadily through 2003 (when it was 44.09%), then grew dramatically from 60.58% in 2004 to 92.37% in 2012. This is illustrated in the following graph:

Graphic No. 1[2]



This graph, however, fails to show the entire picture. The decline in the percentage of loans made to non-affiliates was driven by a dramatic increase in the amount of notes receivable due from affiliates, not by any decrease in the dollar amount of notes owed by non-affiliates. This is shown in the following graph:

Graphic No. 2[3]



[2] The data underlying this graph can be found at Tab 3.
[3] The data underlying this graph is found below in Graphic No. 3.

In fact, the dollar amount of notes due from non-affiliates generally increased over this time period, rising from $1.7 million in 1995 to $8.5 million in 2012. The following table shows the year-by-year breakdown of the sources of notes receivable that were owed to N. Note.

Graphic No. 3[4]

SOURCES OF NOTES PAYABLE TO N. NOTE			
Year End	**Notes Receivable - Total (NoteSmith)**	**Amount Due from Others**	**Amount Due from Affiliates**
1995	$1,843,049.32	$1,773,049.32	$70,000.00
1996	$3,016,728.52	$2,783,728.66	$232,999.86
1997	$3,751,449.39	$3,319,928.17	$431,521.22
1998	$4,309,884.73	$3,804,612.10	$505,272.63
1999	$6,334,980.32	$5,079,161.23	$1,255,819.09
2000	$6,476,184.68	$4,915,520.74	$1,560,663.94
2001	$6,483,783.61	$4,331,304.46	$2,152,479.15
2002	$7,079,911.46	$4,293,819.12	$2,786,092.34
2003	$7,201,713.04	$4,026,149.18	$3,175,563.86
2004	$10,254,586.32	$4,042,029.35	$6,212,556.97
2005	$18,920,363.16	$7,023,420.82	$11,896,942.34
2006	$39,858,026.94	$7,202,815.06	$32,655,211.88
2007	$61,097,619.08	$9,069,620.57	$52,027,998.51
2008	$74,213,301.58	$8,978,278.77	$65,235,022.81
2009	$84,041,227.08	$7,157,640.20	$76,883,586.88
2010	$101,113,341.03	$8,609,058.83	$92,504,282.20
2011	$111,781,136.36	$8,612,720.26	$103,168,416.10
2012	$112,517,616.65	$8,580,267.39	$103,937,349.26

The increase in amounts loaned to affiliates coincided with the dramatic increase in the amounts that N. Note was taking in from investors. As N. Note took more money from investors, it loaned out ever-increasing amounts. The overwhelming majority of these higher amounts of investor money was loaned to affiliated entities. The table below illustrates these increases for the period after 2003:

[4] This data is taken from NoteSmith records found on the NNU computers.

Graphic No. 4[5]

Comparison of Amounts Taken from Investors and Income from Affiliated Entities		
Year	**Amount Owed to Investors**	**% of Reported Income Coming from Related Parties**
2003	7,632,049.31	7.7%
2004	14,575,102.86	27.1%
2005	26,626,112.57	52.8%
2006	46,339,617.82	49.1%
2007	62,495,824.05	53.4%
2008	74,851,393.25	79.1%
2009	85,437,696.28	99.1%
2010	98,621,212.91	81.7%
2011	109,956,499.66	91.6%

Thus, the core of N. Note's financial operations consisted of loaning money to others in exchange for notes receivable (which were recorded as "assets") and attempting to collect interest and recover principal from borrowers.

III. IDENTIFICATION OF FINANCIAL RECORDS ANALYZED

Information in this report is derived from a wide variety of records: internal records of National Note (both electronic and hard copy), bank-provided records, public records, investigative records obtained from the Securities and Exchange Commission, documents provided to the Receiver by investors and customers of National Note, documents obtained in Receivership litigation, and records obtained as part of the Receiver's own investigation. These records include:

1. Bank Records: The U.S. Securities and Exchange Commission issued subpoenas

[5] The data in this table showing amount owed to investors is found on the internal balance sheet of N. Note. *See* N. Note Historical Financial Summary, at Tab 26.

to obtain bank account records for N. Note and 25 affiliated entities. Copies of these records were given to me as Receiver. These included copies of monthly bank statements for accounts that have been identified and, in most cases, copies of checks written on those accounts and deposits made into those accounts. These records were obtained for the period from January 1, 2007 to June 25, 2012; records before this time period had not been retained by the banks. Attached as Tab 1 is a list of bank account records used in my analysis, that were provided to me by the SEC.

2. Internally-Created Electronic Accounting Records: NNU used two primary accounting software systems to track income, expenses, assets, and liabilities of N. Note and its affiliates. The accounting for N. Note and 12 of the related entities were maintained using Peachtree accounting software. Thirteen other entities, including all the Homeland affiliates, recorded their financial activities using QuickBooks accounting software. These internally-generated accounting records reside on the computers of NNU and have been accessed by me and my staff. These records include income statements, balance sheets, and journal entries that show the backgrounds of transactions. A chart showing which records have been located for each year and each entity is attached as Tab 2.

3. Internally-Created Accounting Documents: I have located many paper files created or maintained by NNU and used in the accounting of financial activities of NNU. These include copies of bank statements, journal entries, receipts and invoices for expenses, copies of checks paid from NNU bank accounts, and reconciliation documents.

4. NoteSmith Records: N. Note utilized a specialized software program called NoteSmith to track promissory notes payable and notes receivable, including amounts owed to investors, amounts owed to N. Note by outside borrowers, and amounts N. Note loaned to or

borrowed from affiliated entities. NoteSmith records contain details of principal amounts invested in N. Note, principal amounts loaned out to borrowers, interest accrued, interest and principal actually received from borrowers, and interest and principal paid out to investors. The NoteSmith records appear to have been the principal records relied on by NNU for all promissory note transactions. During some years, NNU made adjustments to its end-of-year accounting records to reconcile those accounting records to the NoteSmith records.

5. Investor Records: Investor records reviewed include files maintained by NNU for each investor, copies of promissory notes, correspondence between investors and NNU, private placement memoranda, subscription agreements, and sales brochures.

6. Real Estate Purchase and Development Records: I reviewed documents relating to real estate acquired by the Receivership Entities for development, for resale, for income, or as a result of a foreclosure by NNU. These documents include lease agreements, trust deeds and mortgages, assignments of beneficial interest, title reports, appraisals, blueprints, development agreements, promotional materials, sales contracts, leaseback and repurchase agreements, releases of liens and assignments of beneficial interest, reconveyances, construction and mechanics liens filed against properties owned by N. Note or its affiliates, construction and utility bills, correspondence, building permits and zoning applications, and property manager reports.

7. Lending Records: I reviewed records relating to loans made by N. Note. These included loan agreements, title reports, correspondence, foreclosure records, and loan payment summaries.

8. Tax Files: N. Note prepared and filed tax returns for itself and many of its related entities. I have reviewed some of these tax filings as part of my review of internal records of

NNU.

9. Commodity Investment Records: NNU had several commodity trading accounts at brokerage firms. Records I reviewed, relating to this trading, included account-opening documentation, account statements showing trading profits and losses, trade confirmations, and financial records showing payments to and from the brokerage accounts.

10. Old Glory Mint Records: I have reviewed records relating to the minting business of Old Glory including internal accounting records, documents showing the purchase of precious metals, correspondence with customers and suppliers, marketing materials, operational expenses, payroll and personnel records, customer orders, invoices, inventory records, and coin production records.

11. Corporate Records: I have reviewed corporate records relating to the operation of National Note and its affiliates, including articles of organization, operating agreements, filings with the Utah Division of Corporations, and documents relating to the transfer of interests in entities.

12. Public Records: Public records that I have reviewed as part of my investigation include corporate records of the Utah Division of Corporations, licensing records of the Utah Division of Real Estate, title records maintained by the Utah State Tax Commission, and tax and ownership records of many of the counties around the U.S. where NNU owned properties.

13. Litigation Records: In connection with demands made by the Receiver or lawsuits filed by the Receiver, I have obtained and reviewed copies of promissory notes, correspondence, bank records, deeds of trust, lease and repurchase agreements, and assignments of beneficial interest. I have had numerous meetings with investors and their attorneys and received documents from them relating to their investments.

14. Investigative Records from the SEC: The SEC has provided me with copies of deposition transcripts, bank records, and motions it has filed with the Court.

IV. FLOW OF FUNDS

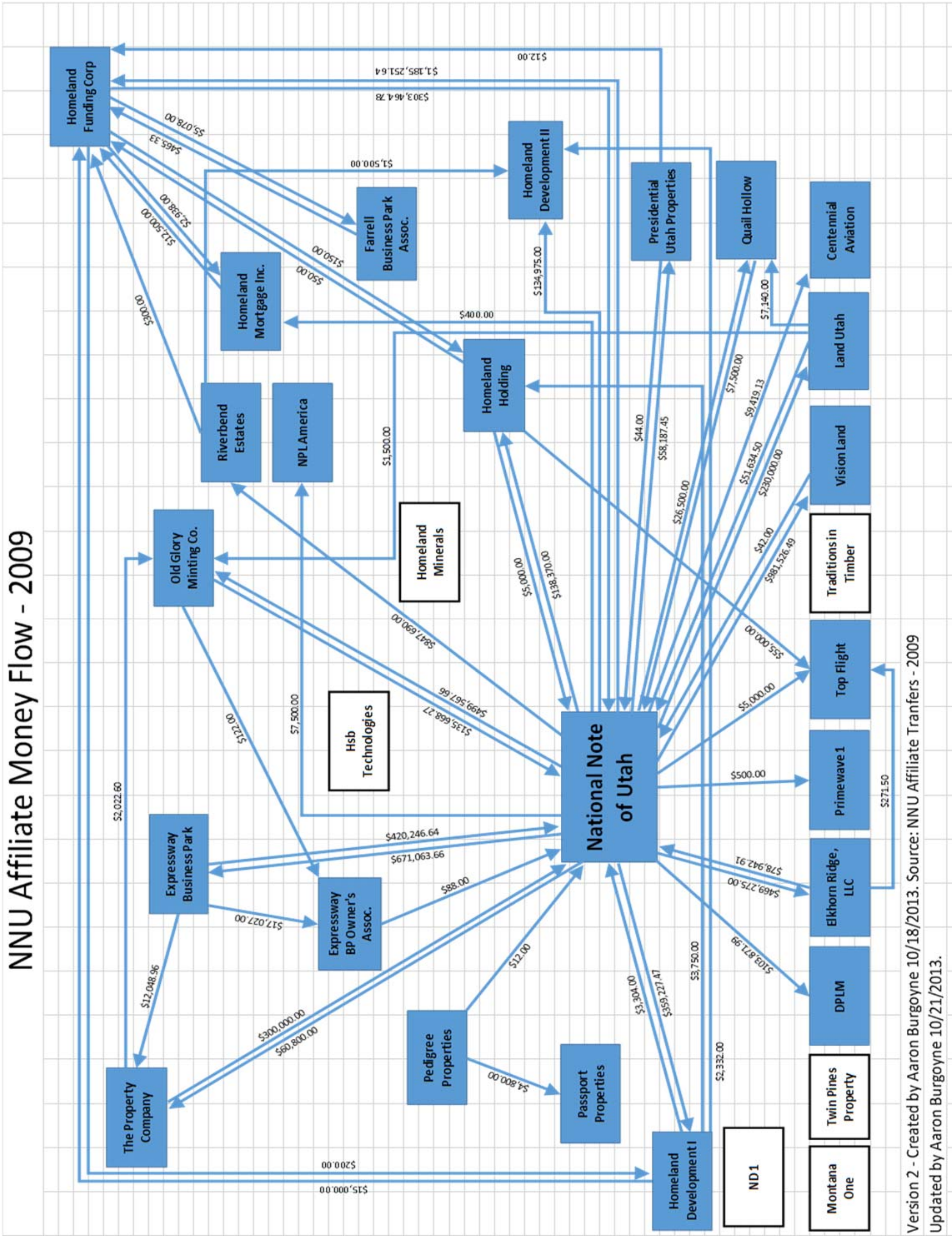
A. Extensive Transfers of Funds Among Affiliates

As described in Section II, above, by 2005, a majority of the investor monies that N. Note was loaning out to others was loaned to affiliates of N. Note.[6] These loans to affiliates were evidenced by promissory notes in which the affiliates promised to repay the money to N. Note, with interest. As a result, there were many money transfers from N. Note to its affiliates and from the affiliates to N. Note. Most of the payments from affiliates to N. Note were payments of interest owed to N. Note or repayment of principal borrowed from N. Note.

There were also many money transfers between the various affiliates, with affiliates loaning money to each other rather than all loans being coordinated through N. Note. The Graphic Number 5[7] on the following page shows the transfers of actual cash among the NNU affiliates during 2009:

[6] In 2006, the percentage dropped to 49%, but rose above 50% in 2007 and each succeeding year.
[7] Source: NNU Affiliate Money Flow (2009). Charts showing money flows for each year from 2007 to 2012 as well as tabular breakdowns of monies owed are located at Tab 4.

NNU Affiliate Money Flow - 2009



Version 2 - Created by Aaron Burgoyne 10/18/2013. Source: NNU Affiliate Tranfers - 2009
Updated by Aaron Burgoyne 10/21/2013.

B. Cash Transfers and Book Entry Transfers

1. N. Note Also Used Book Entry Transfers to Record Income. The cash transfers from the affiliates to N. Note represented only a portion of the income that N. Note recorded in its books as being received from affiliates. N. Note also reported income on its books based on amounts that were owed to N. Note, but not paid in cash. These book entries reported additions and reductions to the principal amounts and interest amounts that the affiliates owed to N. Note. On the occasions that N. Note required its affiliates to pay interest, N. Note would report the "accrued" interest payment as income and would simultaneously add the amount of accrued (but unpaid) interest to the principal amount that the affiliate owed to N. Note. In other words, the accrued interest was added to the outstanding loan balance.

It appears that in many cases, N. Note did not accrue the interest owed by the affiliates on a regular basis. Instead, from time to time, N. Note would calculate the amount of interest that had accrued on loans to particular affiliates, then make book entries recording that interest as income to N. Note and adding the amount of accrued interest to the outstanding loan balance. Not all of the interest that affiliates owed to N. Note was accrued.[8]

2. N. Note Wrote Checks to Itself in the Amounts the Affiliates Owed to N. Note. In connection with these book-entry interest payments, N. Note frequently wrote checks to itself for the amount of interest that an affiliate owed to it. At the same time that N. Note recorded the accrued interest income, N. Note wrote checks payable to N. Note from its investor trust account (Chase account #3907). These checks were deposited into N. Note's investor distribution account (Wells Fargo account #5954). This moved cash from the investor trust account to the investor distribution account where the money would be used to make distribution payments to

[8] N. Note affiliates owed approximately $25 million more in interest to N. Note than was shown on the books of N. Note.

investors. This cash was not sent to the affiliates and it was not sent to N. Note's operating account; the cash went from one N. Note investor bank account to another investor bank account.

A 2007 transaction illustrates the cash movements and accounting notations related to those interest accruals. On October 11, 2007, N. Note wrote a $611,043.57 check drawn on its #3907 investor trust account. The check included a notation regarding the purpose of this money: "Advance-Riverbend." N. Note then deposited this check into its #5954 investor distribution bank account. After making this deposit, N. Note recorded in its books that it had received $611,043.57 in interest income from Riverbend. However, the money did not come from Riverbend and this interest "payment" to N. Note was never recorded on the books of Riverbend. The total amount in the N. Note bank accounts was not increased by these movements of funds.

3. <u>Types of Cash and Book Entry Transfers</u>. When N. Note loaned money to an affiliate, the amount of cash sent to the affiliate was added to the principal amount the affiliate owed to N. Note. For many loans, there were other book entries that increased the principal amount of the loan—without N. Note sending additional cash to the affiliate. This included instances where N. Note: i) added points and loan fees on the loan, ii) transferred money from bank account #3907 to #5954 (calling it a repayment of principal) and added the amount of that book-entry principal repayment back to the loan balance, and iii) transferred money from bank account #3907 to #5954 (calling it an interest payment) and added the amount of that book-entry interest payment to the loan balance.

To illustrate the types of book-entry transfers and the interplay between cash transfers and book-entry transfers, I provide here a summary of the transfers between N. Note and Expressway Business Park. N. Note sent a total of $14,216,419.62 to Expressway (or to others for Expressway). Expressway repaid some of this principal in cash and made some cash interest payments. N. Note also recorded a number of other transactions that affected the amount owed to it by Expressway. After taking into account the various cash and book-entry transactions from 2005 to 2012, the amount that Expressway owed to N. Note as of June 25, 2012 was $13,545,800.87.[9] These transactions are shown on Graphic Number 6 below:

Cash and Book Entry Transactions Re Loans from N. Note to Expressway		
Amount	**Description**	**Type**
	Principal	
14,216,419.62	Amount from N. Note to Expressway or its creditors	Cash
1,304,302.75	Points, loan fees, other non-cash principal additions	Book Entry
-5,740.97	Principal reduction based on checks from N. Note account #3907 to N. Note account #5954	Book Entry
5,740.97	Accounting entry that increased principal amount owed in same amount as prior reduction.	Book Entry
-1,029,878.35	Principal reduction based on book entry transfer of obligations to other affiliates or to non-affiliates, or adjustment of prior entries.[10]	Book Entry
-6,964,758.94	Principal repaid	Cash
7,526,085.08	Ending principal balance	
	Interest Owed	
1,541,568.46	Interest accrued on the loan that was paid in cash	Book Entry
-1,541,568.46	Interest paid in cash from Expressway to N. Note, which N. Note reported as income	Cash
5,798,373.23	Interest that accrued on the loan, which N. Note reported as income after writing checks from N. Note account #3907 to account #5954	Book Entry
230,804.85	Accrued interest, points, and loan fees	Book Entry
-230,804.85	Accrued interest, points, and loan fees reported by N. Note as being paid (but without N. Note writing checks to itself).	Book Entry
221,342.56	Interest accrued, but not yet paid.	Book Entry
6,019,715.79	Total unpaid interest	
	Loan Balance	
7,526,085.08	Ending principal balance	
6,019,715.79	Total unpaid interest added to loan balance	
13,545,800.87	Ending loan balance (as of 6/25/12)	

[9] This information is taken from the Affiliate Loan Transactions Summary, at Tab 5.
[10] An example of the adjustment was that N. Note had added $662,928.45 in loan fees to the Expressway loans. This loan fee was later reversed.

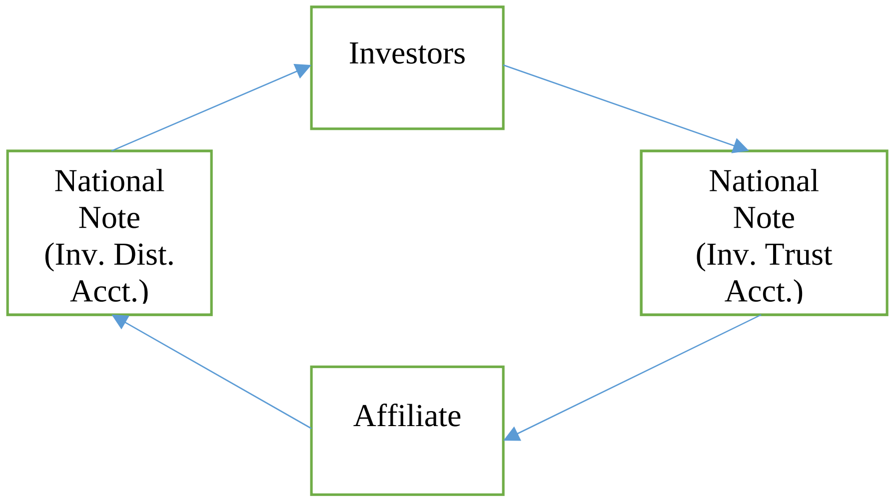
N. Note wrote checks to itself totaling $5.79 million for accrued interest owed by Expressway. However, since none of this amount was cash received from Expressway, the actual outstanding loan balance was not reduced. Instead, N. Note claimed the interest as income, and then added that same amount back to the outstanding loan balance.

N. Note did receive $8.5 million in cash from Expressway in principal and interest payments. The $6.9 million in principal payments would have reduced the principal loan amount to $7.3 million. However, the $5.79 million in book-entry interest payments, the accrued interest, and the points and loan fees that were imposed brought the outstanding loan balance to $13.5 million. In other words, despite the receipt of $8.5 million in cash, Expressway's loan amount was reduced by less than $700,000.00.[11]

4. Flow of Funds. The flow of funds differed for the cash payments and the book-entry payments. In almost all cases, when the affiliates sent cash payments to N. Note (as principal or interest), the affiliates lacked profits or equity from which the affiliates could make those payments. (This is discussed in detail in the next section of this report.) Accordingly, to the extent the affiliates sent cash to N. Note, the cash generally was money that the affiliate had obtained from N. Note. In other words, N. Note provided cash to the affiliate and the affiliate returned some of that cash to N. Note as payments of principal or interest. N. Note's source of cash sent to the affiliates was investors. And, when the affiliates did send cash payments to N. Note, N. Note generally put that money in its investor distribution account for payment of distributions to investors. Thus, the money flowed in a circle as follows:

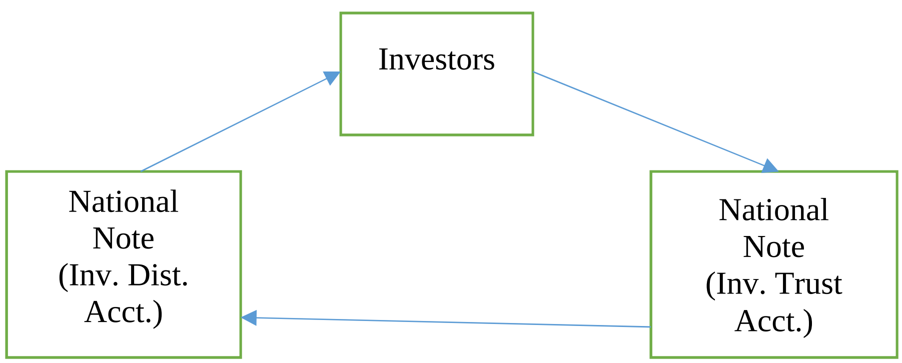
[11] The most significant reason the cash payments did not reduce the total loan balance was the 18% interest rate on the loan from N. Note to Expressway.

Graphic No. 7



For book entry transfers, the cash still moved in a circle, but with only three steps in the circle. This is illustrated as follows:

Graphic No. 8



In both the cash flow and the book entry methodologies, the money went from investors to N. Note and back to investors without having been used in the business operations of the affiliates.

V. NET EQUITY AND NET INCOME

A. Introduction: Notes Owed by Affiliates to N. Note

N. Note had 17 related entities to which it loaned money and which, in turn, owed the borrowed funds—plus interest—to N. Note.[12]

The facts related to the financial condition of the entities that were affiliated with N. Note are discussed below in two groups: those that owed money to N. Note and N. Note itself. Another group of affiliates, that were not parties to notes payable to N. Note, are discussed in Appendix A.

B. Related Entities that Owed Money to N. Note

The 17 affiliated entities owing money to N. Note owed a total of $103,937,349.26 as of June 25, 2012. The table below identifies the 17 affiliates and shows the amounts that each owed to N. Note.

Graphic No. 9

AFFILIATES OWING MONEY TO N. NOTE			
As of June 25, 2012			
Entity Name	**# of Notes**	**Date of First Note Receivable**	**Ending Balance (Principal and Interest)**
Centennial Av.	1	6/27/05	243,444.55
DPLM	1	1/20/06	3,239,030.61
Elkhorn Estates	1	8/18/06	6,953,583.57
Expressway	2	3/31/05	13,545,800.87
H. Develop. I	1	12/9/05	7,966,896.45
H. Develop. II	1	1/3/06	5,914,292.55
H. Funding	6	10/7/97	11,173,295.39
H. Holding	6	11/17/97	7,032,110.72
H. Mortgage	5	7/9/96	0.04
Land Utah	3	8/20/96	7,693,835.49
N. Note[13]	1	8/20/01	540,644.59

[12] While investors were told that National Note could afford to pay 12% interest on the promissory notes because N. Note loaned the money to others at 18%, N. Note sometimes charged affiliates interest rates of 16%, 14%, 12%, and, in one case, 0%. *See* Affiliate Loan Transactions Summary at Tab 5.

NPL America	1	9/23/09	29,313.38
Old Glory	1	3/10/09	0.00
Pres. Utah Prop.	1	2/8/06	1,524,449.02
Property Co.	6	3/8/95	199,128.12
Riverbend	1	4/5/06	22,648,601.41
Sp. Fork Dev.	1	7/22/10	125,270.00
Vision Land	2	10/25/05	15,107,652.50
Total	**41**		**103,937,349.26**

Each of these affiliated entities and N. Note are discussed in more detail below, along with summaries of their financial conditions.

1. Centennial Aviation, LLC:

a. *Background*: Centennial Aviation, LLC ("Centennial") was a limited liability company organized on August 12, 2005. It had three owners, Wayne Palmer, Lincoln Palmer, and Christopher Palmer, each owning one third of the company. All three were managers of Centennial.

b. *Business Operations*: The company's sole asset was an airplane that was used by managers of NNU. Centennial leased the airplane to Homeland Holding. The plane was purchased in 2005 and sold in 2012. The airplane was sold for less than the purchase price. The company's primary income was airplane rental income received from one of the NNU affiliates. The company's expenses were primarily insurance, maintenance costs and operating expenses for the airplane.

c. *Sources of Funding*: N. Note provided $133,269.79 in cash payments to Centennial or its creditors.[14] This debt had a 12% interest rate: the same interest rate that N. Note was paying investors who provided the funds. I have found no evidence that Centennial received any funding from banks or directly from investors. I have not been able to determine

[13] This amount was owed by N. Note to N. Note itself.
[14] *See* Affiliate Loan Transactions Summary, at Tab 5.

any sources of revenue for the company. Bank account records for Centennial indicate that the bank account was used mostly to pay for insurance on the airplane.[15]

d. *Financial Analysis*: I used the bank records of Centennial to create an income statement for Centennial. Income statements for the company, created at my direction, are attached as Tab 6. The income and expenditures of Centennial are summarized in the table below.

Graphic No. 10

INCOME ANALYSIS			
Year	**Income**	**Payments to N. Note**	**Net Income**
2005	0.00	0.00	-635.35
2006	5,178.25	0.00	591.65
2007	3,601.00	0.00	3,120.95
2008	0.00	0.00	-2,276.42
2009	0.00	0.00	-127.33
Total	**8,770.25**	**0.00**	**673.50**

e. *Flow of Funds*: N. Note provided $133,269.79 in cash to Centennial or to others for Centennial. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of Centennial's debt to N. Note as of June 25, 2012 was $243,444.55. The cash and book-entry payments are summarized in the following table.[16]

Graphic No. 11

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate[17]**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[18]**

[15] The bank account was opened in November 2005 and closed in November 2009.
[16] *See* Affiliate Loan Transactions Summary at Tab 5.
[17] This cash was paid to N. Note by other affiliates and used to reduce the outstanding amount that Centennial owed to N. Note.
[18] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transactions Summary, at Tab 5.

Principal	133,269.79	13,108.45	0.00	0.00	13,108.45	243,444.55
Interest		5,253.55	117,774.07	1,362.00	124,389.62	

2. DPLM LLC

a. *Background*: DPLM LLC ("DPLM") was a limited liability company formed on April 18, 2006. The company had two owners: N. Note and Superior Properties (a company owned by Reed Larsen). N. Note and Superior Properties each owned 50% of the company. Palmer and Larsen were the managers of the company. Palmer was the primary signatory on the bank accounts. DPLM's financial records were maintained by N. Note.

b. *Business Operations*: The company held title to 34.5 acres of industrial land in Byron, Minnesota, which it purchased in 2006.

c. *Source of Funding*: Between 2006 and 2012, N. Note provided $1,314,089.24 in cash to DPLM or its creditors.[19] The debt had an interest rate of 18%. The money that DPLM used to purchase the property came from N. Note. DPLM did not receive any funding directly from investors. The development bond financing on the property was in place at the time DPLM acquired the land. DPLM's small amount of income ($3,333.34) was interest income.[20] Its primary expenditure was $1.9 million in interest paid to N. Note.[21]

d. *Financial Analysis—Equity*: The Minnesota land was the sole asset of DPLM, aside from a small amount of cash held in the company bank account. DPLM carried the property on its books at a value of $1,651,149.55.[22] In 2012, DPLM showed that its net equity in

[19] *See* Affiliate Loan Transactions Summary, at Tab 5.
[20] DPLM Historical Financial Summary at Tab 7. This summary was prepared by the Receiver from QuickBooks records of the company. Copies of internal financial statements of these affiliated entities (which were used in the preparation of the historical summaries) are contained on a CD at Tab 8.
[21] Between 2006 and 2012, DPLM's books showed that it expensed $1,843,841.37 in interest charges to N. Note. An additional $113,102.95 was expensed as "points" to N. Note.
[22] DPLM paid $1,651,139.00 for the Minnesota land—subject to an existing development bond. The original amount of the bond was $679,712.71. By 2008, DPLM reported that the bond amount had declined slightly to $571,046.73, where it remained through 2012.

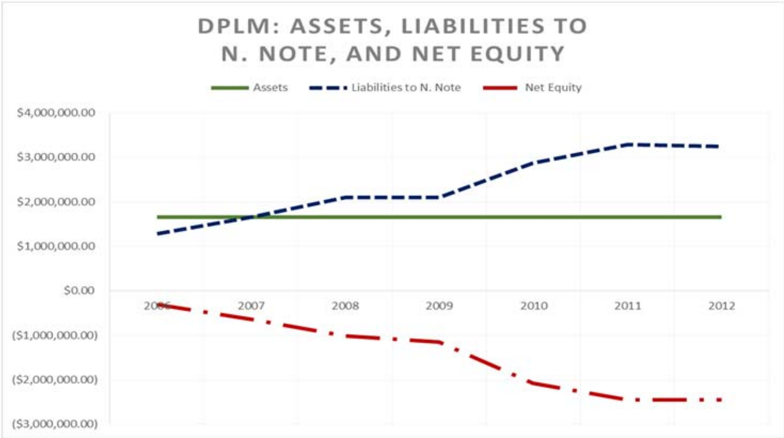
this land was $1,080,092.27 (after deducting the amount owed on the bond). At the same time, DPLM owed N. Note $3.2 million. This was three times what DPLM's books showed was its equity in the property.

DPLM had negative equity every year of its existence and suffered net losses every year of its existence. Key aspects of DPLM's financial condition are shown in the following tables and graphs:

Graphic No. 12[23]

NET WORTH ANALYSIS				
Year	**Assets**	**Bond Debt**	**Liabilities to N. Note**	**Net Equity**
2006	1,651,474.55	679,712.71	1,278,457.50	-306,695.66
2007	1,652,218.55	639,981.05	1,654,781.65	-642,544.15
2008	1,651,882.55	571,046.73	2,095,768.57	-1,014,932.75
2009	1,651,170.55	571,046.73	2,097,118.57	-1,153,770.75
2010	1,651,170.55	571,046.73	2,870,306.74	-2,077,488.33
2011	1,651,164.55	571,046.73	3,293,030.61	-2,446,236.36
2012	1,651,149.55	571,046.73	3,239,030.61	-2,446,411.36

Graphic No. 13



At no point during its entire existence did DPLM ever have sufficient equity to pay the amounts it owed to N. Note. Given the financial condition of DPLM in 2012, the property would

[23] This data is taken from the DPLM Historical Financial Summary, at Tab 7.

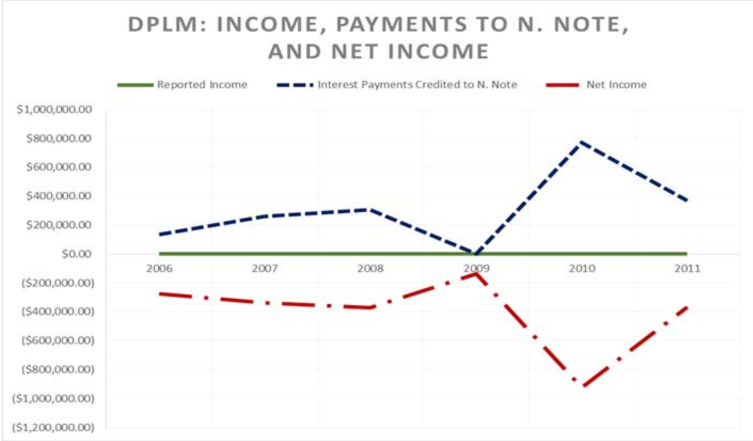
have to be sold for at least $4.09 million—almost three times its book value—in order for DPLM to satisfy its obligation to N. Note, the bond holder, and other creditors.

e. *Financial Analysis—Income*: DPLM also was unable to pay its bills as they became due. Because DPLM lost money every year of its operations, it lacked sufficient income to make either the interest payments owed to N. Note or the principal amount borrowed from N. Note. During the entire seven-year period of its existence, from 2006 to 2012, DPLM had income of only $3,333.34—a tiny fraction of the amount owed to N. Note in interest and principal.

Graphic No. 14

INCOME ANALYSIS			
Year	**Reported Income**	**Interest Payments Expensed to N. Note**	**Net Income**
2006	3,333.34	133,539.37	-273,162.32
2007	0.00	261,213.04	-335,848.49
2008	0.00	307,486.92	-372,388.60
2009	0.00	0.00	-138,838.00
2010	0.00	773,038.17	-923,717.58
2011	0.00	368,563.87	-368,748.03
Total	3,333.34	1,843,841.37	-2,412,878.02

Graphic No. 15



Despite having income of only $3,333.34 over its seven-year history, DPLM's records show that it expensed $1,843,841.37 in payments to N. Note. This was all interest; DPLM made no cash principal payments to N. Note. Because DPLM had only a fraction of this $1.8 million in cash, these interest payments had to be made via book entry.

f. *Flow of Funds*: N. Note provided $1,314,089.24 in cash to DPLM or to others for DPLM. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of DPLM's debt to N. Note as of June 25, 2012 was $3,239,030.61. The cash and book-entry payments are summarized in the following table: [24]

Graphic No. 16

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments[25]**	**Ending Loan Balance[26]**
Principal	1,314,089.24	0.00	0.00	0.00	0.00	3,239,030.61
Interest		85,433.34	1,766,514.07	0.00	1,851,947.41	

3. Elkhorn Ridge Estates, LLC:

a. *Background*: Elkhorn Ridge Estates, LLC ("Elkhorn") was a limited liability company formed on August 2, 2006. N. Note owned 100% of the interest in Elkhorn. Palmer was the manager of Elkhorn. Palmer and his son, Lincoln Palmer, were signatories on the Elkhorn bank account. N. Note maintained the financial records for Elkhorn.

b. *Business Operations*: Elkhorn owned approximately 430 acres of land near Malad, Idaho, that it planned to develop into a vacation-home subdivision. A 150-acre section of the property was subdivided into 48 building lots. Elkhorn built dirt roads, installed

[24] *See* Affiliate Loan Transactions Summary at Tab 5.
[25] This amount is close to the $1,843,841.37 shown on DPLM's income statement. NNU did not reconcile the notes payable records of DPLM with the notes receivable records of N. Note.
[26] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transactions Summary, at Tab 5.

fiber optic cable, began construction of an entry structure, and started building three homes to sell, including a model home. One of the 48 building lots was sold by N. Note before my appointment as Receiver. Elkhorn also had partially completed the purchase of additional land adjacent to the development to allow future expansion.

c. <u>*Source of Funding*</u>: N. Note provided $4,056,523.00 in cash payments to Elkhorn or its creditors.[27] This debt had an 18% interest rate. The company had no capital when it was formed. Its initial funding came from a $510,000.00 loan from N. Note to Elkhorn on August 18, 2006. None of its funding came from bank loans or investments directly by investors. Its cash flow came primarily from N. Note, although Elkhorn did receive proceeds from the sale of one building lot.

d. <u>*Financial Analysis—Equity*</u>: In 2012, Elkhorn recorded the value of the Elkhorn subdivision and the additional land, plus its other assets, at $6,660,337.53.[28] At the same time, Elkhorn owed $6,952,167.63 to N. Note—more than the value of all of Elkhorn's assets.[29] The assets and liabilities are shown on the table below:

<u>Graphic No. 17</u>

NET WORTH DETAILS			
Year	**Assets**	**Liabilities to N. Note**	**Net Equity**
2006	610,266.78	610,266.78	0.00
2007	1,374,375.84	1,444,386.56	-70,010.72
2008	3,073,354.44	3,200,291.69	-126,937.25
2009	4,294,916.43	4,563,157.06	-268,240.63
2010	5,731,141.86	6,016,739.03	-285,597.17
2011	6,660,389.53	6,952,167.63	-291,778.10
2012	6,660,337.42	6,952,167.63	-291,830.21

[27] *See* Affiliate Loan Transactions Summary, at Tab 5.
[28] Elkhorn Ridge Historical Financial Summary, at Tab 9. These other assets included advances made to NNU entities, furnishings, capitalized interest and points, capitalized project management costs, roads, communication infrastructure costs, equipment, a decorative sculpture, and the entry structures.
[29] Elkhorn Ridge Historical Financial Summary, at Tab 9.

Graphic No. 18

At no point during its entire existence did Elkhorn ever have sufficient assets to pay the monies it owed to N. Note. Accordingly, N. Note only required Elkhorn to make interest payments in two years—2007 and 2009.[30] N. Note continued to show the notes receivable from Elkhorn on N. Note's books as an asset, even though Elkhorn did not make payments during most years. Notably, Elkhorn would have had negative equity in 2008 and every year thereafter even if it had paid no interest payments to N. Note.

e. *Financial Analysis—Income*: Elkhorn also was unable to pay its bills as they became due. Elkhorn lost money every year of its operations, including the year that it sold the single building lot. The company lacked sufficient income to make either the interest payments owed to N. Note or the principal amount borrowed from N. Note. Despite losing money every year, Elkhorn's books show that it expensed $181,336.14 in interest and points to N. Note.[31] Key aspects of Elkhorn's income statement are shown in the following table:

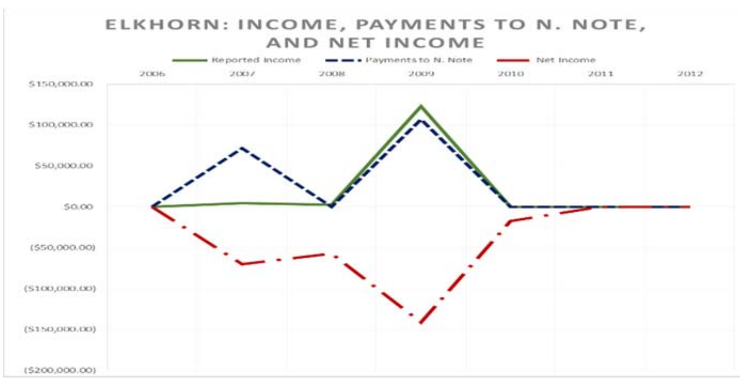
[30] The 2009 interest payments came out of the proceeds of the lot sale. There were no principal payments by Elkhorn to N. Note.

[31] Elkhorn would have had overall negative net income even without expensing these payments to N. Note.

Graphic No. 19

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note**	**Net Income**
2006	0.00	0.00	0.00
2007	4,546.71	74,557.43	-70,010.72
2008	2,739.00	0.00	-56,926.53
2009	122,500.08	106,778.71	-141,303.38
2010	10.39	0.00	-17,356.54
2011	0.00	0.00	0.00
2012	0.00	0.00	0.00
Total	**129,796.18**	**181,336.14**	**-285,597.17**

Graphic No. 20



In 2007, Elkhorn's records showed that it expensed $74,557.43 in interest and points, yet its total income that year was only $4,546.71. It lacked the cash flow to cover the interest and points it paid to N. Note. In 2009—the year that the single building lot was sold—Elkhorn's records show that it paid $106,778.71 in interest to N. Note. While the building lot sold for $120,000.00, Elkhorn's cost of sales for that lot and its operating costs for the year were $157,024.75. Thus, the proceeds from the sale of the lot did not even cover 2009 operating expenses and the pro-rata cost of the lot. Because it had no net proceeds from the sale of the lot, Elkhorn lacked the cash flow to cover this interest payment. The total amount that Elkhorn expensed to N. Note was $181,336.14.

f. *Flow of Funds*: N. Note provided $4,056,523.00 in cash to Elkhorn or to others for Elkhorn. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of Elkhorn's debt to N. Note as of June 25, 2012 was $6,953,583.57. The cash and book entry payments are summarized in the following table:

Graphic No. 21

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**[32]	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance**[33]
Principal	4,056,523.00	0.00	537,965.76	0.00	537,965.76	6,953,583.57
Interest		182,836.14	2,897,060.57	0.00	3,079,896.71	

Despite Expressway paying $182,836.14 in interest, the outstanding loan balance grew from $4.0 million to $6.9 million.

4. Expressway Business Park, LLC:

a. *Background*: Expressway Business Park, LLC ("Expressway") was formed July 10, 2003. It was a limited liability company. Seventy percent of the entity was owned by Homeland Holding with the remaining 30% owned by West Side Enterprises. Expressway was controlled by N. Note, via Homeland Funding and Homeland Holding.[34] Palmer and Reed Larsen were signatories on the bank account of Expressway. N. Note

[32] This amount is very close to the $181,336.14 that Elkhorn records show as Elkhorn paying to N. Note. Again, NNU did not reconcile the notes payable amounts on Elkhorn's books with the notes receivable amounts on N. Note's books.

[33] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transactions Summary, at Tab 5.

[34] The manager of Expressway was Homeland Funding. Homeland Funding was wholly owned by Homeland Holding. Homeland Holding was owned by Palmer (50%) and by Reed Larsen (50%). The operating agreement for Expressway provides that Homeland Funding would exercise all management control over Expressway; West Side Enterprises had no management rights.

maintained the financial records of Expressway. N. Note acquired the controlling interest in Expressway from a prior owner.

b. *Business Operations*: Expressway developed and owned a warehouse condominium project in Spanish Fork, Utah. Six buildings were constructed and most of the warehouse units were sold to business owners or investors. Expressway also owned 2.7 acres of adjacent land that had been platted for an additional warehouse condominium building, but no construction had yet begun on that property. Another 27.5 acres of adjacent land was slated for future development. A number of the warehouse condominiums that were sold, however, were sold to buyers on the condition that Expressway agreed to repurchase the units from these buyers on demand and that Expressway guarantee rent payments on those units. Thus, Expressway would find tenants, collect rents from the tenants, and pay a guaranteed rent amount to the owners who had repurchase agreements. Expressway was obligated to make the guaranteed rent payments to the buyers, even if the units did not have tenants.

c. *Source of Funding*: N. Note provided $14,216,419.62 in cash payments to Expressway or its creditors.[35] Expressway signed two different promissory notes to N. Note, one in 2005 and the second in 2008. Both notes had interest rates of 18%. The majority of funding for Expressway came from N. Note. The Expressway property was encumbered by a loan from Central Bank of Utah. That loan was paid off in 2007. Expressway received no funding directly from investors although the balance sheets of the company for 2003 through 2005 do show that Leon Harward (manager of West Side) had $100.00 in equity in Expressway. The vast majority of Expressway's income came from rental income and the sales of condominium units. The primary expense categories were interest payments to N. Note and other affiliates, payments to

[35] *See* Affiliate Loan Transactions Summary, at Tab 5.

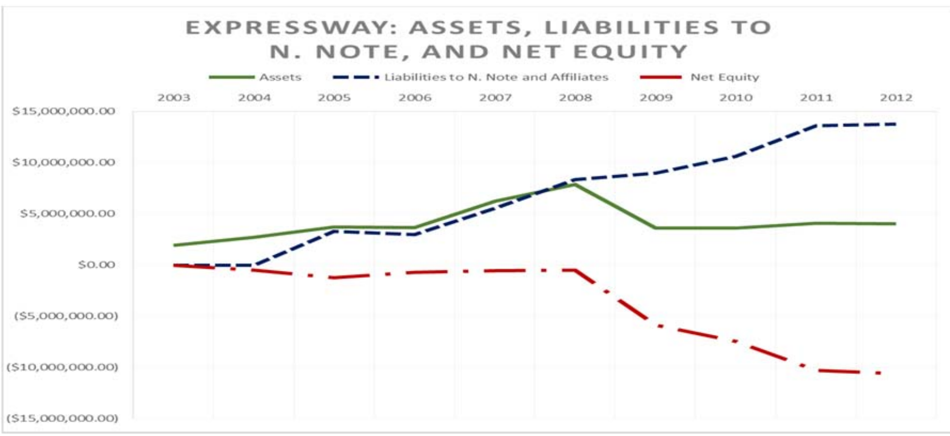
Central Bank, sales commissions, marketing, property taxes, rents paid to others, and consulting fees.[36]

d. *Financial Analysis—Equity*: In 2012, Expressway recorded the value of all its land and buildings—plus its other assets at $4,005,902.79. At the same time, Expressway owed $13.7 million to N. Note and other NNU parties. Expressway's liabilities for 2012 were more than three times the value that the company itself assigned to the assets. Additional detail is shown on the table below.

Graphic No. 22

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note and Affiliates**	**Net Equity**
2003	1,924,690.20	0.00	-30,777.92
2004	2,722,999.06	0.00	-500,399.21
2005	3,716,925.84	3,267,092.73	-1,216,112.19
2006	3,665,041.96	2,990,302.12	-697,810.09
2007	6,249,741.70	5,525,416.67	-576,404.55
2008	7,866,997.69	8,312,644.95	-480,727.54
2009	3,606,993.15	8,966,446.61	-5,877,327.42
2010	3,608,842.34	10,602,429.71	-7,430,883.33
2011	4,061,341.96	13,583,117.97	-10,271,333.82
2012	4,005,902.79	13,764,749.38	-10,598,190.09

Graphic No. 23



[36] Expressway Historical Financial Summary, at Tab 10.

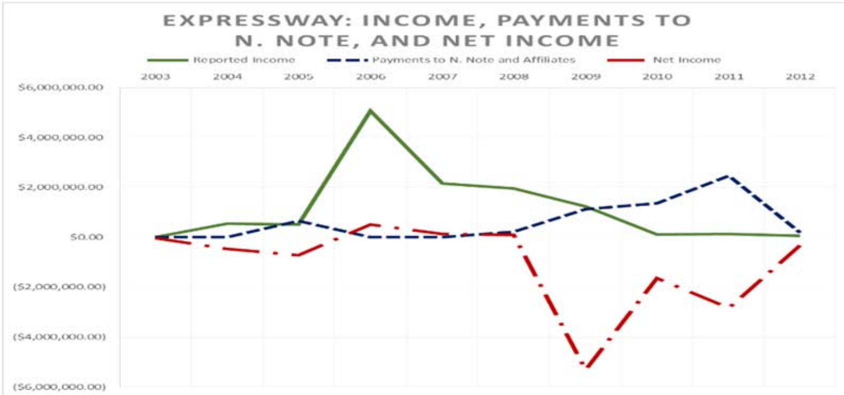
Expressway had $10,598,190.09 in negative equity in 2012, and had negative equity every year of its existence. At no point during its existence did Expressway ever have sufficient assets to pay the monies it owed to N. Note. From 2008 to 2012, Expressway's obligations to N. Note and other NNU entities alone were greater than all the assets owned by Expressway—sometimes by a factor of three.

e. *Financial Analysis—Income*: Expressway's own books show that the company lost money seven out of the ten years of its existence. The annual net income for Expressway is shown on the following table:

Graphic No. 24

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note and Affiliates**	**Net Income**
2003	0.00	0.00	-27,877.92
2004	537,891.65	0.00	-469,621.29
2005	501,903.56	659,921.19	-715,712.98
2006	5,072,460.88	0.00	518,402.10
2007	2,164,418.40	0.00	121,405.54
2008	1,952,557.45	221,830.09	94,617.01
2009	1,225,458.65	1,123,655.08	-5,307,599.88
2010	120,950.00	1,355,855.35	-1,642,555.91
2011	125,839.95	2,459,131.16	-2,840,450.49
2012	67,110.90	184,275.00	-326,856.27
Total	**11,768,591.44**	**6,005,947.55**	**-10,596,250.09**

Graphic No. 25



This table shows that the only years Expressway did not record losses were during three years when it did not expense any interest payments to N. Note or expensed a reduced payment.[37] During a time that Expressway lost $10.5 million over ten years, Expressway expensed more than $6 million in interest payments to N. Note and other affiliated parties.

Operating Costs, Losses on Property Sales: Interest expenses to N. Note and other affiliates were not the only cause of Expressway's income losses. The company faced high operating costs. An extreme example was in 2009 when Expressway had income from sales of $1,080,000.00 but its "cost of sales" for the year was $4,836,143.17. The abnormally high cost of sales during 2009 included a $2.4 million write-down of the value for units sold previously. During the entire time that sales were being recorded (from 2004 to 2009), total sales were $10,943,654.45 but the cost of those sales (*i.e.*, the values recorded on Expressway's books) was $11,009,546.21. That means that Expressway's property sales resulted in losses overall.

Rent Guarantees: Expressway's rent guarantees also worsened its financial condition. Between 2004 and 2012, Expressway internal records showed that it collected $648,283.47 in rents, but it paid $2,063,524.96 in rents. Much, if not most, of these rents were paid to its "buyback" customers. This rent disparity caused a revenue loss of over $1.4 million.

f. *Flow of Funds*: N. Note provided $14,216,419.62 cash to Expressway or to others for Expressway. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of Expressway's debt to N. Note as of June 25, 2012 was $13,545,800.87. The cash and book-entry payments are summarized in the following table.[38]

[37] N. Note appears to have excused Expressway from making any interest payments in 2006 and 2007, and allowed Expressway to make a reduced interest payment in 2008.
[38] *See* Affiliate Loan Transactions Summary, at Tab 5.

Graphic No. 26

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[39]**
Principal	14,216,419.62	6,964,758.94	5,740.97	1,029,878.35	8,000,378.26	13,545,800.87
Interest		1,541,568.46	5,798,373.23	230,804.85	7,570,746.54	

Expressway paid over $8.5 million in cash to N. Note. As shown above, Expressway did not have $8.5 million in net income; it did not have any net income. An illustration of the extent to which Expressway lacked the necessary cash to make payments to N. Note is that in 2005 and from 2010 through 2012, the amounts Expressway paid or expensed to N. Note and its affiliates were more than the total amount of gross revenue Expressway received those years. In other words, Expressway expensed more money in interest payments than the total amount of revenue to the company. That means N. Note had to provide sufficient cash to Expressway to pay its costs of construction, cover operating losses, and fund the $8.5 million in cash paid to N. Note. This is a major reason why Expressway owed $13.5 million to N. Note.

5. Homeland Development I, LLC:

a. *Background*: Homeland Development I, LLC ("HD1") was formed on June 20, 2005 as a limited liability company. It was wholly owned by Homeland Holding, one of the NNU entities. It was managed by Homeland Holding, which in turn was managed by Palmer and Larsen. Palmer and Larsen were signatories on HD1's bank accounts. N. Note maintained the financial records of HD1.

[39] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transactions Summary, at Tab 5.

b. *Business Operations*: HD1 was constructing a warehouse condominium building in Mesa, Arizona called Clearview Business Park ("Clearview"). The building was not completed by HD1.

c. *Source of Funding*: N. Note provided $3,804,608.22 in cash payments to HD1 or its creditors.[40] This debt had an 18% interest rate. HD1 had no initial capital. HD1 did not appear to obtain any funding from banks or directly by investors; all the funding for HD1 came from N. Note. Because the Clearview project was not completed, no units were sold. As a result, HD1 had no sales income. The company did book minimal income, $128.02 in miscellaneous income plus $23,234.00 in insurance proceeds that it declared as income. HD1's major expenditures were interest payments to N. Note, construction costs, professional fees, and loan write-offs.

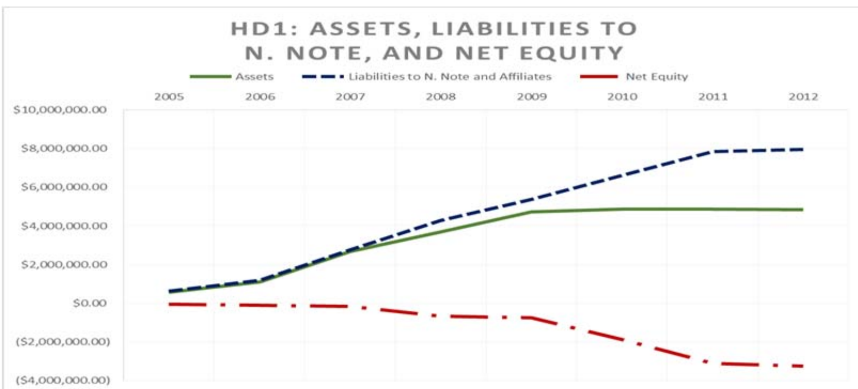
d. *Financial Analysis—Equity*: HD1's internal financial records valued the Clearview building and land at $4,845,974.96. Even with this asset valuation, HD1 had negative net equity every year of its existence—because of the amounts it owed to N. Note. At no point during its entire existence did HD1 have sufficient net assets to pay the monies it owed to N. Note.[41] After its first year of operations, HD1 owed more money to N. Note than the value of all of HD1's assets. HD1's net worth is shown in the following table:

[40] *See* Affiliate Loan Transactions Summary, at Tab 5.
[41] Beginning in 2006, HD1 began capitalizing the interest that it owed to N. Note. HD1 also capitalized property taxes that it owed on Clearview. By 2009, the capitalized interest alone had added $1,887,393.63 to the cost of the property.

Graphic No. 27[42]

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note and Affiliates**	**Net Equity**
2005	566,323.98	629,851.57	-63,547.99
2006	1,089,564.74	1,193,952.25	-104,469.62
2007	2,667,722.55	2,759,870.50	-154,493.36
2008	3,676,245.13	4,277,104.79	-662,442.54
2009	4,733,779.93	5,383,187.92	-763,299.60
2010	4,875,257.37	6,611,853.93	-1,876,635.25
2011	4,866,931.44	7,840,987.05	-3,109,396.04
2012	4,850,927.30	7,979,535.39	-3,261,761.88

Graphic No. 28



HD1 had $3,261,761.88 in negative equity in 2012. Even if Clearview could have been sold for the $4.8 million book value, HD1 still would have negative equity because HD1 owed $7,956,252.07 to N. Note.[43] The Clearview building would have to have sold for at least $8,111,174.89 (in its existing, unfinished condition),[44] in order for HD1 to cover all of its liabilities, including its payment obligation to N. Note.

e. *Financial Analysis—Income*: HD1 lost money every year. Over the course of its eight-year existence, HD1 lost $3,261,761.88. This loss was incurred against total

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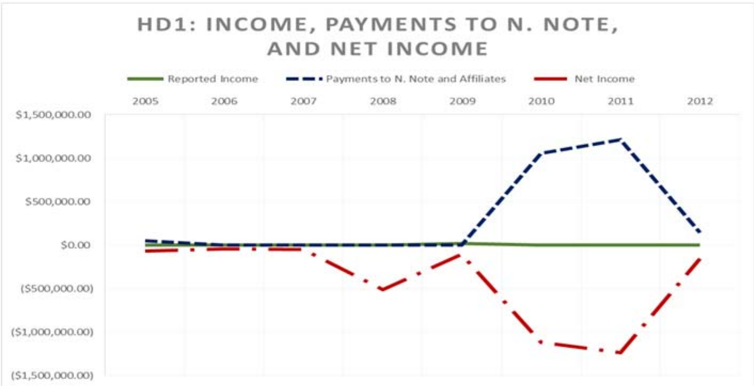
[42] Homeland Development I (Clearview) Historical Financial Summary, at Tab 11.
[43] Another $23,283.32 was owed to NNU affiliates.
[44] This amount is based on the total liabilities of HD1 less the cash balance of its bank account.

income of $128.02 over the eight-year period.[45] Despite having almost no income, HD1 expensed $2,468,840.78 in interest to N. Note and other related parties. The company also wrote off more than $670,000.00 in loans and advances to two employees who were working on the project. These and other factors led to annual and accumulated losses. Key aspects of HD1's income are shown in the following table:

Graphic No. 29

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note and Affiliates**	**Net Income**
2005	0.00	51,327.99	-63,547.99
2006	28.02	0.00	-40,921.63
2007	100.00	0.00	-50,023.74
2008	0.00	0.00	-507,949.18
2009[46]	23,234.00	0.00	-100,857.06
2010	0.00	1,058,679.08	-1,113,335.65
2011	0.00	1,212,383.71	-1,232,760.79
2012	0.00	146,450.00	-152,365.84
Total	**23,362.02**	**2,468,840.78**	**-3,261,761.88**

Graphic No. 30



HD1 had no income in any of the years that it made payments to N. Note. The total income losses suffered by HD1 during this entire period exceeded the total amount paid to N.

[45] This does not count the one-time receipt of $23,234.00 in insurance proceeds in 2009.
[46] During 2009, the $23,234.00 received as insurance proceeds was the only reported income for HD1.

Note and its affiliates. This means HD1 would have suffered net losses even without expensing any payments to NNU.

f. *Flow of Funds*: N. Note provided $3,804,608.22 in cash to HD1 or to others for HD1. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of HD1's debt to N. Note as of June 25, 2012 was $7,966,896.45. The cash and book-entry payments are summarized in the following table.[47]

Graphic No. 31

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[48]**
Principal	3,804,608.22	0.00	483,789.15	0.00	483,789.15	7,966,896.45
Interest		218,120.20	4,127,598.14	0.00	4,345,718.34	

HD1 paid $218,120.20 in interest. Since the company had income of only $128.02, there was no other source for this this $218,120.20 in cash paid to N. Note other than N. Note.

6. Homeland Development II, LLC:

a. *Background*: Homeland Development II, LLC ("HD2") was formed on September 19, 2005. It was a limited liability company. It was wholly owned by Homeland Holding. The managers were Homeland Holding and Homeland Funding, which were controlled by Palmer and Larsen. Both Palmer and Larsen were signatories on HD2's bank accounts. N. Note maintained the financial records for HD2.

b. *Business Operations*: HD2 constructed a warehouse condominium building in Gilbert, Arizona called Farrell Business Park ("Farrell"). The building shell was

[47] *See* Affiliate Loan Transactions Summary, at Tab 5.
[48] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transactions Summary, at Tab 5.

completed by HD2. The property had 18 condominium units; HD2 sold six of the units in 2008 and 2009.

c. *Source of Funding*: N. Note provided $3,851,022.31 in cash payments to HD2 or its creditors.[49] The money that HD2 borrowed from N. Note had an 18% interest rate. HD2 had no initial capital of its own; HD2's funding came from N. Note. None of the funding came from banks or directly to this company from investors. HD2's reported income came from the six condominiums sold. Its primary expenditures were interest to N. Note and construction costs.

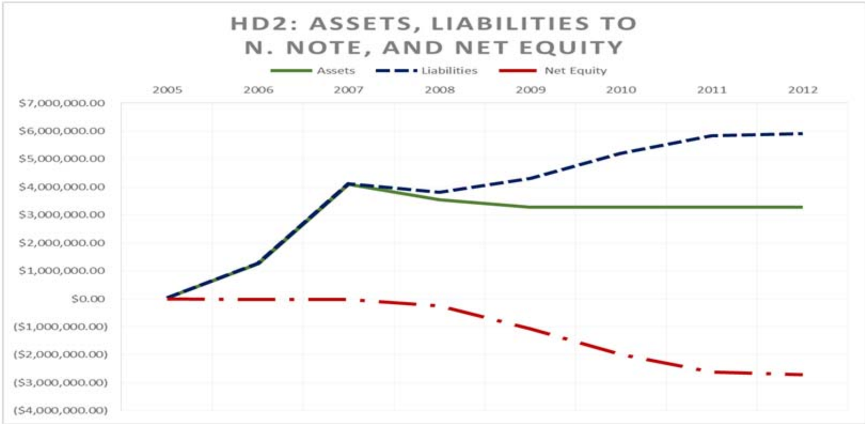
d. *Financial Analysis—Equity*: HD2's books listed the Farrell property as having a value of $3,262,002.88 on June 25, 2012.[50] HD2's liabilities were higher than this amount. As a result, HD2 had negative net equity every year of its existence. Key aspects of HD2's financial condition are shown in the following tables:

Graphic No. 32

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note[51]**	**Net Equity**
2005	36,997.96	37,125.00	-127.04
2006	1,266,243.95	1,274,577.33	-9,817.51
2007	4,091,271.77	4,115,438.66	-26,586.53
2008	3,556,753.22	3,811,227.34	-254,749.12
2009	3,280,664.74	4,304,146.63	-1,068,950.77
2010	3,280,102.35	5,213,557.78	-1,981,606.80
2011	3,282,535.35	5,834,935.77	-2,610,450.54
2012	3,282,503.98	5,914,289.55	-2,704,609.69

[49] *See* Affiliate Loan Transactions Summary, at Tab 5. This amount is what NoteSmith reported was received by N. Note in cash. Actual cash was somewhat lower because NoteSmith reported points and finance charges billed to affiliates as cash received. When N. Note loaned money to affiliates, it added points and finance charges to the loan amount. For HD2, the $3,851,022.31 reported by NoteSmith as cash was made up of i) $3,511,718.22 in actual cash provided for HD2, ii) $308,801.09 in finance charges and points retained by N. Note, iii) $30,500.00 in interest recorded at the end of the year, and iv) a $3.00 error when data was entered into NoteSmith. It is likely that N. Note's loans to other affiliates followed a similar pattern.
[50] Homeland Development II Historical Financial Summary, at Tab 12.
[51] Additional monies were owed to NNU affiliates.

Graphic No. 33



From the net worth analysis table we see that not only did HD2 have negative equity every year, but that the amounts HD2 owed to N. Note were, by themselves, more than the total assets of HD2 every year. The other liabilities of HD2 added to the negative equity of the company. In order for its assets to exceed its liabilities, HD2 would have had to sell its remaining properties for $5.9 million. If HD2 could not sell those properties for $5.9 million, it would have had insufficient assets to satisfy its payment obligations to N. Note.[52] At no point during its entire existence did HD2 have sufficient net assets to pay the monies it owed to N. Note.

e. *Financial Analysis—Income*: HD2 reported that it expensed $2,388,455.43 in interest to N. Note and other affiliates. This represented 145% of all the income that HD2 received during its existence, including proceeds from the sales of condominium units. In reality, HD2 lost money every year of its operations, losing a total of $2,704,609.69.[53] HD2 would have lost money every year even without expensing these payments to N. Note.

[52] This would require selling each of the remaining 12 units for almost twice the sales prices of the first six units.
[53] The negative net equity of HD2 was exactly equal to the accumulated net income losses of the company.

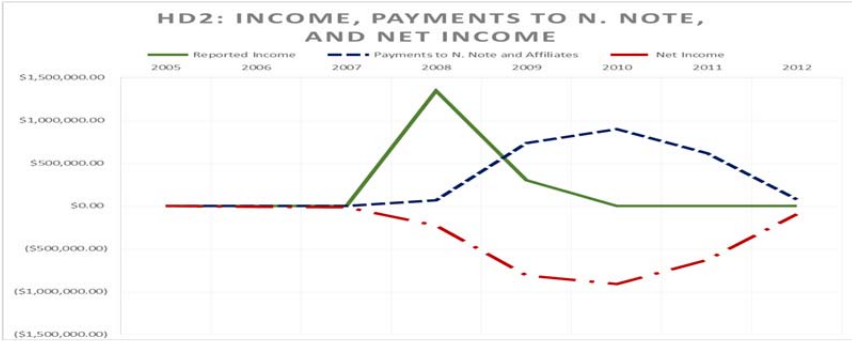
While the company did receive $1.6 million in gross proceeds from the sale of six condominium units in 2008 and 2009, that sales revenue was not sufficient for HD2 to make a profit. In 2008, HD2 recorded gross sales proceeds of $1,344,608.00 from the sales of units, but it recorded a "cost of sales" for those units of $1,359,000.00. As a result, HD2 actually lost $14,392.00 on the units it sold in 2008. In 2009, gross sales proceeds were $299,000.00, with costs of sales of $271,800.00, leaving a gross profit of $27,200.00. For the combined sales from both years, gross proceeds were $1,643,608.00 and cost of sales was $1,630,800.00—a gross profit of $12,808.00.[54] However, HD2 also paid other expenses associated with the sales, including $90,546.24 in commissions as well as additional payments for closing costs, title fees, and marketing costs. When these other costs are considered, the company lost money on these sales.

Graphic No. 34

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note and Affiliates**	**Net Income**
2005	0.00	0.00	-127.04
2006	0.00	0.00	-9,690.47
2007	653.25	0.00	-16,769.02
2008	1,344,608.00	64,418.77	-228,162.59
2009	299,020.00	735,693.01	-814,201.65
2010	0.00	898,517.03	-912,656.03
2011	0.00	615,326.62	-628,843.74
2012	0.00	74,500.00	-94,159.15
Total	**1,644,281.25**	**2,388,455.43**	**-2,704,609.69**

[54] Homeland Development II Historical Financial Summary, at Tab 12.

Graphic No. 35



f. *Flow of Funds*: N. Note provided $3,851,022.31 in cash to HD2 or to others for HD2. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of HD2's debt to N. Note as of June 25, 2012 was $5,914,292.55. The cash and book-entry payments are summarized in the following table.[55]

Graphic No. 36

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate[56]**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[57]**
Principal	3,851,022.31	1,252,082.82	13,185.98	0.00	1,265,268.80	5,914,292.55
Interest		323,780.52	3,285,904.25	88,134.42[58]	3,697,819.19	

The $1,663,997.76 that HD2 paid in cash to N. Note as principal and interest payments was higher than the total gross revenue for HD2. And, since HD2 lost money every year, it

[55] *See* Affiliate Loan Transactions Summary, at Tab 5.
[56] The principal amount showing in this table represents sales proceeds from the six Farrell units sold. The cash was sent from a title company to N. Note on behalf of HD2. $249,280.52 of the interest amount is interest booked in connection with the sale proceeds.
[57] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transactions Summary, at Tab 5.
[58] This amount is made up of points charged by N. Note to HD2 on the initial loan balance. It represented 10% of the initial loan.

lacked sufficient net cash to make these payments. In light of the operating losses, the only source of cash for HD2 to pay $1.7 million to N. Note was with cash provided by N. Note.

7. Homeland Funding Corp.:

a. *Background*: Homeland Funding Corp. ("Funding") was formed on January 18, 1996.[59] It was wholly-owned by Homeland Holding. Palmer and Larsen were the managers of Funding. Palmer and Larsen were the signatories on Funding's bank accounts. N. Note maintained the financial records for Funding.

b. *Business Operations*: Funding's primary assets were the Fairfield property and notes receivable from N. Note and other affiliates. The Fairfield property consists of 108.4 acres of land in Fairfield, Utah. Funding also listed $949,258.83 in notes receivable owed by N. Note and other affiliates. In addition to holding title to the Fairfield land, the business of Funding appears to have been providing services to other NNU entities, including acting as intermediary for funds transferred between various NNU affiliates, paying salaries of and providing health insurance for N. Note employees, and making investments.

c. *Sources of Funding*: N. Note provided $11,078,390.52 in cash payments to Funding or its creditors.[60] There were six different promissory notes from Funding to N. Note, having interest rates between 12% and 18%. Almost all of the money used for the operations of Funding came from N. Note. Funding's financial statements show opening equity of $5,365.22 on December 10, 1999. Funding also had a line of credit at Key Bank that was accessed during 2009 and 2010, but the draws on the line of credit never exceeded $10,000.00. I have found a few promissory notes that were issued directly to investors by Funding. The

[59] Funding did not conduct any operations until 1999.
[60] *See* Affiliate Loan Transactions Summary, at Tab 5.

balance sheet for Funding lists a line item for notes payable to investors through NNU.[61] For 2012, the amount of this liability was approximately $1.4 million. It appears that monies obtained from investors were forwarded to N. Note and that Funding relied on N. Note to invest those investor monies. The primary sources of income for Funding were loan fees, investment income, reimbursed payroll, and reimbursed expenses. The most significant expenditures were for interest expenses, profit sharing, payroll, insurance, and management fees paid to N. Note.[62]

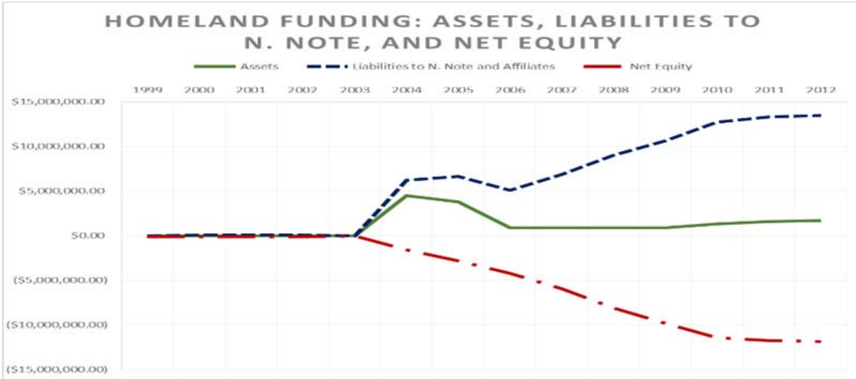
d. *Financial Analysis—Equity*: Funding's books listed the Fairfield property as having a value of $705,415.95. Even with this valuation, Funding had negative net equity (or zero equity) every year of its existence. Key aspects of Funding's financial condition are shown in the following tables:

Graphic No. 37

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note and Affiliates**	**Net Equity**
1999	5,365.22	0.00	-114,513.64
2000	109.68	113,527.52	-113,417.84
2001	109.68	113,527.52	-113,417.84
2002	109.68	113,527.52	-113,417.84
2003	0.00	0.00	0.00
2004[63]	4,498,071.60	6,229,463.37	-1,572,123.15
2005	3,828,051.47	6,642,947.15	-2,814,895.68
2006	920,372.39	5,115,668.56	-4,195,296.17
2007	918,634.17	6,848,404.15	-5,933,784.73
2008	926,376.79	9,023,894.06	-8,097,517.27
2009	876,892.70	10,654,944.64	-9,816,699.10
2010	1,322,403.52	12,727,296.89	-11,422,976.09
2011	1,622,868.29	13,311,166.59	-11,733,673.58
2012	1,693,795.93	13,498,900.86	-11,849,277.13

[61] Homeland Funding Historical Financial Analysis, at Tab 13.
[62] Funding paid approximately $1.4 million to N. Note in management fees and more than $2.3 million in payroll, bonuses, and health insurance for NNU employees.
[63] In 2004, Funding recorded a $3.6 million investment in Catalyst Liquidity Fund as an asset. This investment was not recovered and N. Note did not list this investment as an asset in later years.

Graphic No. 38



Funding had zero equity or negative equity each year of its existence. At no point did Funding have sufficient net assets to pay the monies it owed to N. Note. In 2004, Funding's net equity was -$1.5 million. By 2012, the negative net equity had multiplied seven-fold to -$11.8 million. Moreover, the amounts that Funding owed to N. Note were, by themselves, more than the total assets of Funding every year except for 1999. The other liabilities of Funding only worsened the negative equity of the company. In the years following 2005, a substantial portion—and sometimes a majority—of the assets of Funding consisted of "notes receivable" from N. Note and affiliated entities.

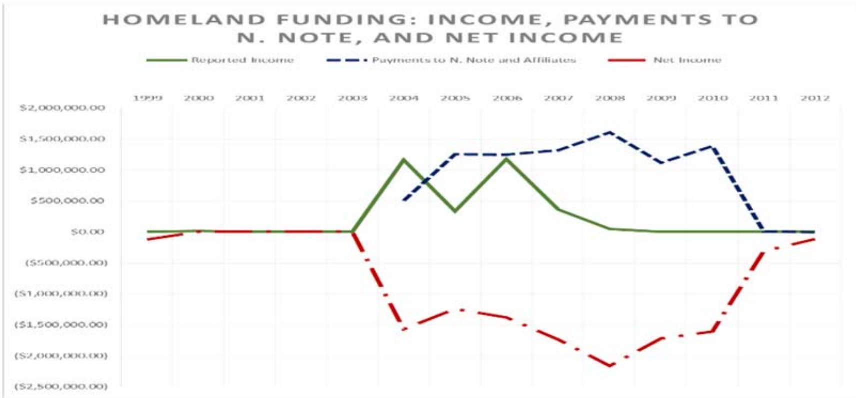
e. *Financial Analysis—Income*: Funding lost money every year of its operations, losing a total of $11,962,804.66.

Graphic No. 39

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note and Affiliates**	**Net Income**
1999	0.00	0.00	-119,878.86
2000	12,519.75	0.00	-281.21
2001	0.00	0.00	0.00
2002	0.00	0.00	0.00
2003	0.00	0.00	-109.68
2004	1,160,999.24	507,501.05	-1,565,380.92
2005	337,166.34	1,254,410.80	-1,242,772.53

2006	1,178,338.04	1,248,301.15	-1,380,400.49
2007	361,649.47	1,317,977.26	-1,738,488.56
2008	50,197.60	1,603,097.58	-2,163,732.54
2009	2,425.00	1,119,228.27	-1,719,181.83
2010	100.00	1,381,435.24	-1,606,277.01
2011	0.00	6,624.18	-310,697.47
2012	0.00	-6,422.00	-115,603.56
Total	**3,090,875.69**	**8,432,153.53**	**-11,962,804.66**

Graphic No. 40



Funding expensed paying $8.4 million to N. Note and its affiliates for interest. This was more than two and a half times the total income of Funding. Significantly, Funding would have lost money every year except one, even without expensing interest payments to N. Note. The company recorded revenue in only one year before 2004. In 2004, there began to be a large number of transactions with N. Note.

Unusual Transactions: The financial statements of Funding show numerous unusual transactions. These include:

i. Payroll: Payroll for N. Note employees came from Funding, not from N. Note. Funding's financial statements recorded payment of $1,975,163.91 in payroll expenses.[64] Approximately $375,000.00 of this was reimbursed to Funding by N. Note, but the remaining $1.6 million appears to have been used to cover payroll for

[64] I was unable to find that Funding had any employees dedicated to it.

employees of N. Note and the various affiliates.[65] Between 2007 and 2012, the amount of payroll paid by Funding was greater than the total income of the company.[66] I found records showing that at least from 2007 to 2010, Funding paid Christmas bonuses to employees of NNU. The annual bonus amounts during these years ranged from $80,000.00 to $100,000.00, including years in which N. Note's own records show that it lost money.[67]

ii. Health Insurance: Funding paid $368,780.20 for health insurance. I believe this health insurance was for employees of N. Note and other affiliated companies because I cannot find any records showing that Funding had any employees dedicated to it.

iii. Management Fees: Funding paid $1.4 million to N. Note in "management fees." I have been unable to determine what, if anything, N. Note was "managing" in order to earn these fees or why the fees were coming from the Funding bank account.[68]

iv. Houseboat: In 2009, Funding recorded $155,974.98 in expenses for supplies and maintenance for a houseboat on Lake Powell.

v. Sources of Income: Most of Funding's reported income came from "investment income" (82%). This investment income began in 2004 and lasted through 2007. Prior to this point, the only income Funding had was $12,519.75 in loan

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[65] I have not found that any of the affiliates had "employees" dedicated to the affiliates. Instead, the employees worked at N. Note and portions of their salaries were charged to various entities. Many of these salaries were paid through Funding.

[66] Funding also made payroll payments from 2004 to 2006 but during these years the amount of payroll was less than the total income of Funding. Between 2007 and 2009, N. Note reimbursed Funding $375,858.27 in payroll. During those three years, the reimbursed payroll represented 90.7% of the income recorded by Funding. *See* Homeland Funding Historical Financial Summary, at Tab 13.

[67] Palmer paid himself a bonus in early 2012, after N. Note had stopped making interest payments to investors.

[68] In both 2005 and 2008, Funding paid more to N. Note in management fees than the total income of Funding for the year.

fees received in 2000. After 2007, the majority of reported income was "reimbursed payroll" and "reimbursed expenses." The only source of operating income was "loan fees and income," which represented 5.6% of Funding's total income from 1999 to 2012.

vi. Profit Sharing: Funding paid $388,429.26 to N. Note as "profit sharing." However, Funding never made a profit.

f. *Flow of Funds*: N. Note provided $11,078,390.52 in cash to funding or to others for Funding. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of Funding's debt to N. Note as of June 25, 2012 was $11,173,295.39. The cash and book-entry payments are summarized in the following table.[69]

Graphic No. 41

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[70]**
Principal	11,078,390.52	4,503,268.68	4,373.99	0.00	4,507,642.67	11,173,295.39
Interest		1,602,375.10	4,545,477.59	0.00	6,147,852.69	

Funding paid $6,105,643.78 in cash to N. Note towards the principal and interest owed. Because Funding lost money every year and had negative equity every year, it had no source of cash to make these payments. The cash to make these payments came from N. Note.

8. Homeland Holding, Corp.:

a. *Background:* Homeland Holding Corp. ("Holding") was formed December 31, 1997 as a corporation. Wayne Palmer and Reed Larsen each owned 50% of the

[69] *See* Affiliate Loan Transactions Summary, at Tab 5.
[70] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transaction Summary, at Tab 5.

stock. Palmer and Larsen controlled the company and were signatories on its bank accounts. N. Note kept the financial records of Holding.

b. *Business Operations*: Holding's primary asset was the Autumn Ridge subdivision in Eagle Mountain, Utah. Holding was engaged in property development. Phase I of Autumn Ridge had received final approval for the subdivision and approximately 40 lots had been sold. Another 19 developed lots were held by Holding for sale. Substantial development work had been done on Phase II of the subdivision. This entity also was used for several other purposes including paying expenses for one of the airplanes used by officers of the companies, commodities speculation,[71] and efforts to buy gold from a person who claimed to be an army general of the country of Ghana.

c. *Source of Funding*: N. Note provided $7,074,452.53 in cash payments to Holding or its creditors.[72] Holding's funding came from N. Note. Holding's financial statements show opening equity of -$3.50 as of December 31, 2001. This represented net income for 2001. I have found a few instances of Holding issuing promissory notes directly to investors, but I have not located any records showing that Holding received significant funding directly from investors.[73] Holding did not receive any funding from banks. Holding did obtain some seller financing when it purchased the Eagle Mountain property. Holding had six different promissory notes with N. Note. These notes had interest rates ranging from 0% to 18%. At the time I was appointed as Receiver, three of these notes were still outstanding. These three notes had interest rates of 0%, 14%, and 18%. Holding's primary sources of revenue were property

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[71] I have located two commodities trading accounts used by NNU. The Holding trading account showed a 2002 ending balance of $17,579.00. By the end of 2003, this investment account was worth only $227.78. The other trading account was actively traded in 2002 and 2003. NNU traded corn, cattle, and soybean futures. All but $13.82 of the $15,700.00 sent to the investment account was lost in trading.

[72] *See* Affiliate Loan Transactions Summary, at Tab 5.

[73] The company's balance sheet does not list any notes payable to investors.

sales, management income, flight services income, and a transaction fee from Homeland Minerals. Its primary expenditures were for construction costs, interest to N. Note, and consulting fees.

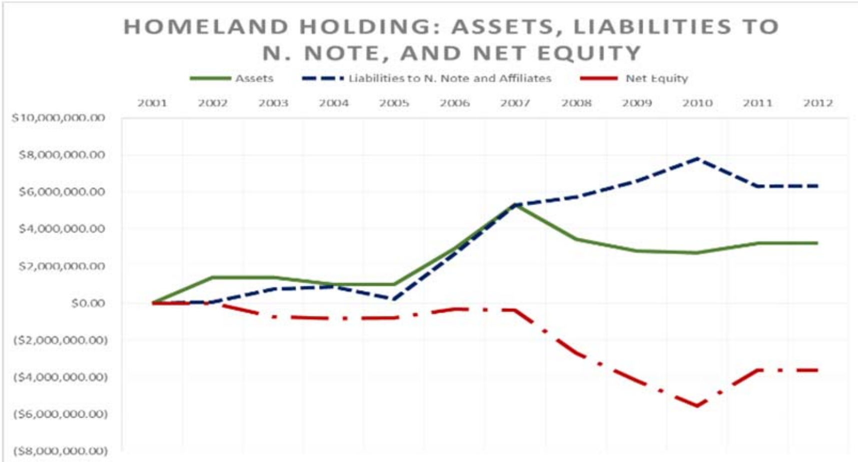
d. *Financial Analysis—Equity*: Holding valued its Eagle Mountain property at $2,392,154.64.[74] Another $694,219.06 in assets consisted of accounts receivable and notes receivable.[75] The total value of assets on Holding's balance sheet was $3,230,522.20. Holding recorded negative net worth every year. Holding's equity is shown in the following table:

Graphic No. 42

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note and Affiliates**	**Net Equity**
2001	996.50	1,000.00	-3.50
2002	1,390,703.91	69,201.24	-6,957.76
2003	1,389,963.11	774,713.44	-714,393.76
2004	1,007,526.78	905,639.60	-804,696.25
2005	1,006,578.39	240,510.22	-787,915.26
2006	2,953,043.49	2,678,269.92	-306,809.86
2007	5,337,214.33	5,295,809.22	-367,594.89
2008	3,449,759.29	5,736,834.23	-2,682,181.54
2009	2,827,524.21	6,584,834.21	-4,162,993.56
2010	2,726,632.77	7,792,523.95	-5,549,645.31
2011	3,230,978.32	6,318,105.47	-3,613,118.77
2012	3,230,522.20	6,322,457.56	-3,615,941.56

[74] Homeland Holding Historical Financial Summary, at Tab 14.
[75] Most of this was due from other affiliates.

Graphic No. 43



From the net worth analysis table we see that not only did Holding have negative net worth every year, but the amounts Holding owed to N. Note were often more than the total assets of Holding, particularly in the later years. The balance sheet also records an asset labeled as "General Maliko Gold." NNU sent representatives to Ghana in May 2011 to meet with "General Maliko." A bank account was opened during that trip to Ghana with money from NNU, but no gold was ever purchased from General Maliko. Despite this failure, Holding continued listing a $78,780.00 asset on its books for gold.

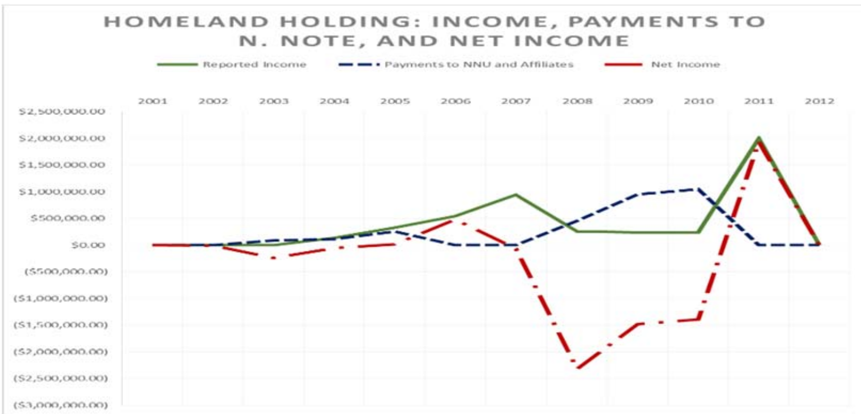
e. *Financial Analysis—Income*: The company lost money nine of its 12 years of operations and the profit in those three remaining years was the result of the transactions described below. On a cumulative basis, Holding lost money. The following table shows the annual financial performance of Holding:

Graphic No. 44

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to NNU and Affiliates**	**Net Income**
2001	0.00	0.00	-3.50
2002	0.00	3,086.24	-6,954.26
2003	0.00	90,832.05	-239,300.52

2004[76]	140,500.00	112,926.66	-53,574.48
2005	327,371.23	260,846.87	16,780.99
2006	544,000.00	0.00	481,105.41
2007	945,000.00	0.00	-60,784.94
2008	258,111.50	457,821.37	-2,314,586.75
2009	242,000.00	954,417.78	-1,480,812.02
2010	244,080.00	1,052,989.98	-1,386,651.75
2011	2,005,685.00	0.00	1,936,526.54
2012	93.88	0.00	-2,822.79
Total	**4,706,841.61**	**2,932,920.95**	**-3,111,078.07**

Graphic No. 45



Notable Transactions: The income statement for Holding shows several notable transactions:

i. Flight Services: Holding reported earning $209,996.50 in "flight services income," relating to an airplane leased by the company.[77] However, the company reported $308,754.56 in aircraft expenses during the same time period. That means the company spent $1.47 in expenses for every dollar of flight income it earned.

ii. Management Income: The company recorded $980,596.23 in "management income" from 2004 to 2006. This management income came from Homeland

[76] The total income for 2004 and 2006 was "management income." This supposed income came from an affiliate. This is discussed below.
[77] This airplane was leased from its affiliated company, Centennial Aviation.

Funding. It is not known what management services, if any, Holding provided to Funding that resulted in this income.

iii. Commodities Trading: Holding engaged in futures trading for a time. During 2003, the company reported $25,351.22 in losses in futures trading.

iv. Minerals Transaction Fee: In 2011, Holding recorded a one-time receipt of $2,000,000.00 as a "minerals transaction fee." This $2 million was part of $4 million that a sub-group of investors paid to Homeland Minerals in 2011. As described in Appendix A, Homeland Minerals recorded $4 million in equity from this group of investors and then moved $2 million from Homeland Minerals to Holdings. I have been unable to determine what Holding did to earn this transaction fee. None of the expenses or assets of the company suggest that Holding had any ongoing business relating to minerals processing.

v. Transactions with Affiliates: Holding's balance sheet shows many notes owed to other NNU affiliates and amounts owed from those affiliates to Holding. In several instances, Holding owed money to the same affiliate that owed money to Holding. These notes payables and receivables between the same parties were not offset. Holding's financial records showed notes receivable or payable relating to at least eight affiliated entities.[78]

Autumn Ridge Property Development: The most notable transactions by Holding related to the central business purpose of the company—the development and sale of residential building lots in Autumn Ridge. This subdivision made up 74% of the value of the company's assets. Holding purchased the land for the subdivision in 2002. As the company expended funds to develop the two phases of this subdivision, it added the costs of these improvements to the land cost, recording the total cost as assets. This included capitalized interest and capitalized property

[78] A table summarizing these notes receivable and payables to affiliates is at Tab 15.

taxes. The resulting amount reflected the company's "cost basis" for the property and its improvements.

In 2007, the company began selling developed lots. It also began to reduce the recorded value of the remaining land, as a result of the sales. The results of these reductions in basis (called by Holding: "cost of goods sold") are shown in the following table:

Graphic No. 46

Comparison of Sales Income to the Cost of the Land Sold		
Year	**Sales Income**	**Cost of Goods**
2007	945,000.00	945,000.00
2008	220,000.00	2,205,926.96
2009	242,000.00	619,462.20
2010	109,000.00	296,352.02
Total	**$1,516,000.00**	**$3,886,741.18**

Between 2007 and 2010, Holding sold 43 lots. The sales income of $1,516,000.00 reflects an average gross selling price of $35,255.81 per lot. However, the cost of the 43 properties sold was $3,886,741.18, or an average cost of $90,389.33 per lot. Holding's records showed a combined loss of $2,370,741.18 on the sale of the 43 lots—an average per-lot loss of $55,133.52.

The values of land and improvements still remaining on Holding's books after the sale of these 43 lots reflect an even higher per-lot book value. This is shown in the table below:

Graphic No. 47

Per-Lot Book Value of Remaining Building Lots	
Book value of remaining Phase I lots	1,989,930.91
Number of remaining Phase I lots	÷19
Average per-lot book value	=104,733.21

If these remaining lots were not sold for at least $104,000.00 each, the accumulated income losses already suffered by Holding would be increased and the negative net equity of the company would be increased.

<u>Book Entries</u>: Holding lost money every year except for 2005, 2006, and 2011. The following book entries explain the purported net profits of Holding in those three years:

In 2005, 90.4% of the income for Holding ($296,096.23) came from "management income." This barely covered the $271,846.87 in interest Holding paid to N. Note and others. Without the management income, the company would have incurred a loss of $279,315.24. In 2006, Holding reported $481,105.41 in net income out of $544,000.00 in total income. The only income earned by Holding that year was from "management income." Without this reported income from an affiliated entity, the company would have suffered $62,894.59 in losses. Moreover, Holding paid no interest expense to N. Note or its affiliates in 2006—despite owing $5.2 million in notes payable to N. Note. If Holding had paid the 18% interest that it owed to N. Note during this year, it would have paid $953,245.66 to N. Note. This would have turned its $481,105.41 reported net profit to a $472,140.25 net loss.

The same is true for 2011. Net income of $1,936,526.54 was a direct product of the $2 million in "Homeland Minerals Transaction Fee" that was posted to the books of Holding. If this money had not been deposited into Holding this year, the company would have suffered a loss of $63,473.46. Holding also made no interest payments to N. Note in 2011. If it had paid interest of 18% on the $6,318,105.47 that it owed to N. Note and affiliates at the end of 2011, Holding would have paid $1,137,258.98.

Based on the internal financial records of the company, Holding lost money with commodities trading, flight services, and sales of Autumn Ridge lots. By 2012 it had amassed a cumulative $3,111,078.07 in losses and had negative equity equal to -$3,615,941.56—making it unable to repay N. Note.

f. *Flow of Funds*: N. Note provided $7,074,452.53 in cash to Holding or to others for Holding. After accounting for the principal and interest payments made in cash, and relevant book entries, the amount of Holding's debt to N. Note as of June 25, 2012 was $7,032,110.72. The cash and book-entry payments are summarized in the following table.[79]

Graphic No. 48

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[80]**
Principal	7,074,452.53	1,806,324.93	142.90	755,381.06	2,561,848.89	7,032,110.72
Interest		1,273,619.98	2,438,309.81	1,264,618.94	4,976,548.73	

Over the years, Holding paid $3,079,944.91 in cash in principal and interest. Holding had negative equity every year, so it lacked the assets to repay N. Note. Holding had cumulative negative income and was unable to pay $2.9 million to N. Note from operational profits. The only source of cash for Holding to make actual payments of principal and interest to N. Note was by N. Note providing the funds to Holding in order to make the interest payments.

9. Homeland Mortgage, Inc.:

a. *Background*: Homeland Mortgage, Inc. ("Mortgage") was a corporation. It was incorporated on January 18, 1996. Homeland Holding owned 100% of the stock. Palmer was president and a director of Mortgage. Larsen also was a director. The financial records for Mortgage were maintained by N. Note.

[79] *See* Affiliate Loan Transactions Summary, at Tab 5.
[80] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transactions Summary, at Tab 5.

b. *Business Operations*: Mortgage's assets primarily consisted of accounts receivable and notes receivable. Earlier in its existence, Mortgage had a commodities trading account. It was engaged in the business of assisting in the origination of mortgages. Mortgage also paid payroll expenses for N. Note and other affiliates. By 2012, its business operations were minimal.

c. *Source of Funding*: Mortgage received $286,402.90 in five loans from N. Note.[81] The five different promissory notes Mortgage had with N. Note had interest rates ranging from 12% to 18%. N. Note provided the majority of the overall funding for the operation of Mortgage. Mortgage did have a $10,000.00 line of credit with a bank. I have found indications that Mortgage may have issued some promissory notes directly to investors, but the financial statements of Mortgage did not reflect any capital directly from investors. Mortgage's cash flow came from loan origination fees and reimbursements. Its primary expenses were interest expenses, commissions, property closing expenses, and payroll.

d. *Financial Analysis—Equity*: Most years, Mortgage had negative equity, including all of the last five years of its existence.[82] The equity was as low as -$403,986.44 (in 2002). The highest positive equity the company achieved was $45,220.71 in 2005. Its net equity for each year is shown in the following table:

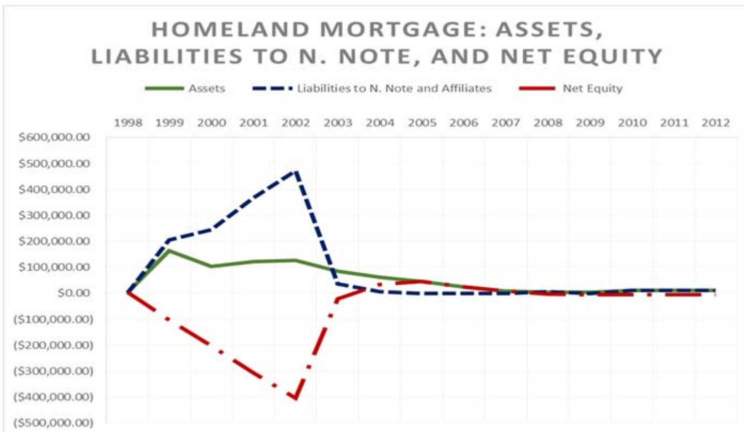
Graphic No. 49

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note**	**Net Equity**
1998	5,182.84	1,093.00	4,089.84
1999	164,751.99[83]	157,253.49	-101,511.19
2000	104,081.75	197,745.07	-203,023.86
2001	122,064.49	271,590.77	-305,107.59

[81] *See* Affiliate Loan Transactions Summary, at Tab 5.
[82] Homeland Mortgage Historical Financial Summary, at Tab 16.
[83] $159,777.28 of this amount was owed to Mortgage by Funding and other affiliates.

2002	126,420.25	329,570.87	-403,986.44
2003	85,010.93	26,543.81	-21,559.67
2004	62,309.30	4,740.87	34,799.04
2005	45,767.71	0.00	45,220.71
2006	25,339.82	0.00	25,339.82
2007	9,113.28	0.00	8,787.78
2008	3,610.05	5,950.00	-2,339.95
2009	5,077.87	0.00	-4,772.79
2010	10,754.05	0.00	-4,880.82
2011	10,754.02	0.00	-4,880.85
2012	10,754.02	0.00	-4,880.85

Graphic No. 50



Analysis of the company's net worth reveals several unusual transactions in its balance sheets:

i. Notes Receivable: During a five-year period, from 2000 to 2004, the bulk of Mortgage's assets consisted of notes receivable from N. Note or affiliated entities. In 2000, for example, 93.2% of Mortgage's assets were made up of these notes receivable from these affiliated companies.[84]

ii. Interest Not Paid to N. Note: For three of the years that Mortgage showed positive net equity (2005 to 2007), Mortgage recorded no notes payable to N. Note or affiliates. In a fourth year (2004), Mortgage recorded a significantly-reduced payable to related

[84] Homeland Mortgage Historical Financial Summary, at Tab 16.

companies. This elimination of notes payable to affiliated companies was not a result of Mortgage having paid off those notes; the income statement shows only $2,291.78 paid to N. Note or affiliates in interest in 2004 and none after that point.[85] Instead, it appears that N. Note forgave the loan from Mortgage.

As of 2012, the Mortgage balance sheet showed that Mortgage owed no money to N. Note and only $10,000.00 to other NNU affiliates. This is despite having owed as much as $472,568.86 to N. Note and affiliates and the financial statements not showing that this amount was ever paid off.

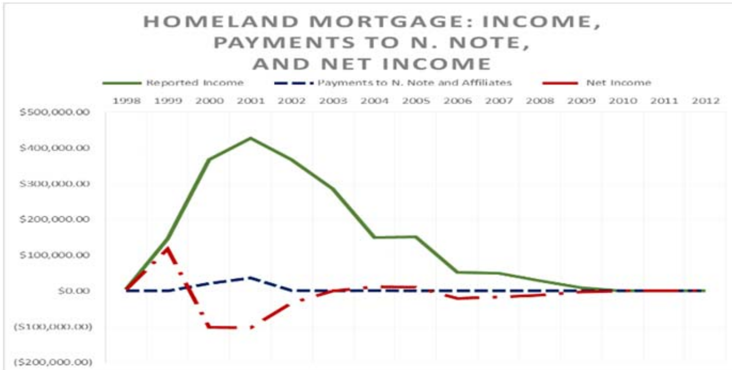
e. *Financial Analysis—Income*: Mortgage recorded five years of positive net income, but suffered net losses overall. These are shown on the table below:

Graphic No. 51

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note and Affiliates**	**Net Income**
1998	5,182.84	0.00	4,931.06
1999	146,872.02	0.00	117,390.25
2000	368,189.44	21,357.35	-101,512.67
2001	428,494.47	36,602.18	-102,083.73
2002	367,567.21	1,643.65	-33,531.17
2003	286,015.56	89.02	694.66
2004	150,254.97	2,291.78	12,785.48
2005	151,350.55	0.00	10,421.66
2006	52,278.71	0.00	-19,880.88
2007	50,059.47	0.00	-16,552.04
2008	29,324.37	0.00	-11,127.73
2009	9,703.98	0.00	-2,459.84
2010	-42.87	0.00	-108.03
2011	0.00	0.00	-0.03
2012	0.00	0.00	0.00
Total	**2,045,250.72**	**61,983.98**	**-141,033.01**

[85] In fact, during its entire existence, Mortgage's financial statements say that it paid $61,983.98 in interest to N. Note and affiliates. This was insufficient to pay off the $472,568.86 recorded on the books of Mortgage as owed to N. Note and affiliates as of the end of 2002. Homeland Mortgage Historical Financial Summary, at Tab 16.

Graphic No. 52



Mortgage differed from most of the NNU affiliates in that it did not show large amounts borrowed from N. Note. This reduced the liabilities it had and reduced its expenditures. Nevertheless, the company still had net operating losses, losing a total of $141,033.01 during its existence. The detailed income statements for Mortgage included some unusual financial transactions. These include:

i. Unrecorded Expenses: For 1999, Mortgage recorded $117,390.25 as net income. However, a 1999 balance sheet entry showed "Opening Bal Equity" of -$223,832.50. Journal entries in the financial records indicate that N. Note paid expenses for Mortgage, which expenses were recorded directly to the "equity" line item of Mortgage, without ever appearing on the books as expenses. Origination Fees: Almost all of Mortgage's income came from origination fees. Over the course of its existence, 94.9% of all income to Mortgage was from origination fees. The high point for income was in 2001. Income dropped significantly the first three years after 2001 and dramatically in 2006. By 2010, income had dropped to zero and remained there.

ii. Commissions Paid: Commissions paid to others constituted a high share of the expenses of Mortgage. Most years, this ranged from 50% to 80% of expenses. In one year (2006), Mortgage paid more in commissions to others than the entire amount of its income, paying out $53,555.16 in commissions based on total income of $52,278.71.[86]

iii. Commodities Trading: The company engaged in futures trading in 2001 and 2002, losing $55,256.00 during those years.

f. *Flow of Funds*: N. Note provided $286,402.90 in cash to Mortgage or to others for Mortgage. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of Mortgage's debt to N. Note as of June 25, 2012 was a miniscule $0.04. The cash and book-entry payments are summarized in the following table.

Graphic No. 53

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance**
Principal	286,402.90	286,402.86	0.00	0.00	286,402.86	0.04
Interest		175,512.85	0.00	0.00	175,512.85	

Because Mortgage had $141,033.01 in cumulative income losses, it lacked the net income to pay the $461,915.71 in principal and interest payments that it sent to N. Note. As such, the cash Mortgage paid to N. Note had to come from funds N. Note provided to Mortgage.

10. Land Utah, LLC:

a. *Background*: Land Utah, LLC ("Land Utah") is a limited liability company that was formed on November 6, 2006. Palmer owned 100% of Land Utah and he controlled its operations. N. Note maintained the financial records of Land Utah.

b. *Business Operations*: Land Utah's primary asset was the East Meadows Mobile Home Park in Vernal, Utah and mobile homes in the park. Land Utah also owned two

[86] *See* Commission Analysis, at Tab 17.

lots on 900 West Street in Salt Lake City.[87] Land Utah's business related to managing the mobile home park and another apartment building in Vernal which was owned by others.

c. *Source of Funding*: N. Note provided $7,103,190.57 in cash payments to Land Utah or its creditors.[88] There were three different promissory notes underlying these obligations. These notes bore interest at 16% to 18%. Land Utah had no initial capital; funding for the company came from N. Note. I have not found any bank loans or monies provided by investors directly to N. Note. However, Land Utah did use some seller financing for the purchase of East Meadows, owing money to the sellers relating to the purchase.[89] Land Utah's income was almost exclusively rent received from tenants of the mobile home park. The company's biggest expenditure was interest expenses to N. Note and affiliates. The company also had significant expenditures related to operation of the mobile home park: maintenance and repairs, depreciation, payroll, and utilities.

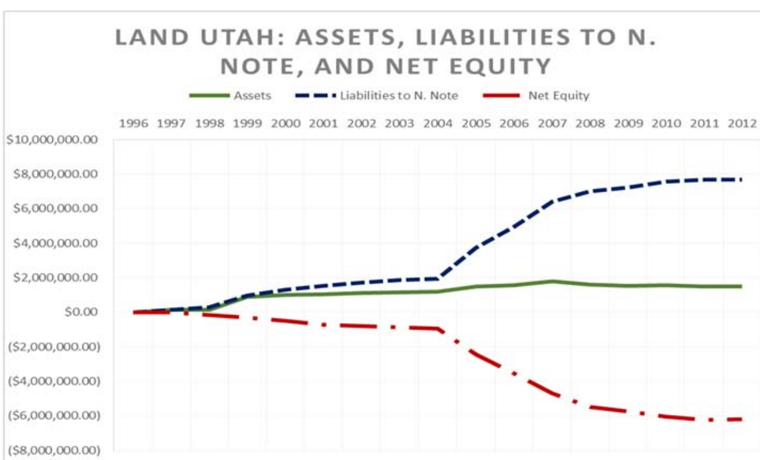
d. *Financial Analysis—Equity*: Land Utah valued the mobile home park and the mobile homes at $1,452,630.25 and the two Salt Lake City building lots at $45,000.00 as of June 25, 2012.[90] In 1996, Land Utah's first year of operations, it had positive net equity of $267.03. Every year after 1996 the company had negative net equity, culminating in a negative equity of $6,207,908.78 in 2012. This negative net equity was a direct result of monies that Land Utah owed to N. Note, as shown on the following table:

[87] Apartment buildings that had been on these lots were destroyed by fire prior to my appointment.
[88] *See* Affiliate Loan Transactions Summary, at Tab 5.
[89] The debts to the sellers were paid off in 2010.
[90] Land Utah Historical Financial Summary, at Tab 18.

Graphic No. 54

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note**	**Net Equity**
1996	267.03	0.00	267.03
1997	135,592.92	149,439.52	-25,572.89
1998	129,053.00	283,490.00	-157,753.11
1999	909,709.31	982,415.31	-297,138.10
2000	1,010,207.00	1,299,760.16	-512,730.30
2001	1,030,447.70	1,527,733.46	-714,688.26
2002	1,108,338.22	1,709,518.04	-810,588.87
2003	1,159,036.41	1,849,740.73	-888,710.08
2004	1,198,448.00	1,958,667.54	-949,197.01
2005	1,492,579.90	3,756,989.05	-2,439,671.55
2006	1,580,289.60	4,961,556.47	-3,517,503.93
2007	1,806,519.71	6,395,202.95	-4,707,379.69
2008	1,610,788.18	6,990,623.52	-5,473,477.98
2009	1,522,428.06	7,223,623.52	-5,731,417.37
2010	1,550,678.86	7,565,523.86	-6,035,918.00
2011	1,489,391.98	7,682,223.86	-6,223,562.88
2012	1,511,221.08	7,682,223.86	-6,207,908.78

Graphic No. 55



In every year after 1996, Land Utah owed more to N. Note than the total recorded value of Land Utah's assets. The amounts owed to N. Note were in addition to amounts owed to the sellers of the East Meadows mobile home park. Because payments to the property sellers had to be made to avoid losing the property, even less money was available to send to N. Note. By 2011, Land Utah owed N. Note more than five times the total value of all Land Utah assets.

Land Utah frequently increased the stated value of some of its mobile homes. In 2005, Land Utah increased the valuation of its mobile homes from $307,855.74 to $777,054.54, an increase of $469,198.80.[91] By 2008, Land Utah valued these mobile homes at $1,094,425.96.

2005 also saw a dramatic increase in the amount of money owed to N. Note. While total assets grew that year by approximately $294,000.00, the amount owed to N. Note grew by $1.8 million. Consequently, the negative equity of Land Utah increased by another $1.5 million.

These internal records show that Land Utah had negative equity in the properties it purchased. Land Utah bought East Meadows and the mobile homes for $520,721.99 but owed $215,832.10 to the sellers and $686,738.60 to N. Note—an immediate deficit of $381,848.71. It bought the apartments on 900 West Street for $267,346.73 but owed $295,676.71 to N. Note for that property—again an immediate deficit.

e. *Financial Analysis—Income*: The negative net income of Land Utah on an annual basis is shown below:

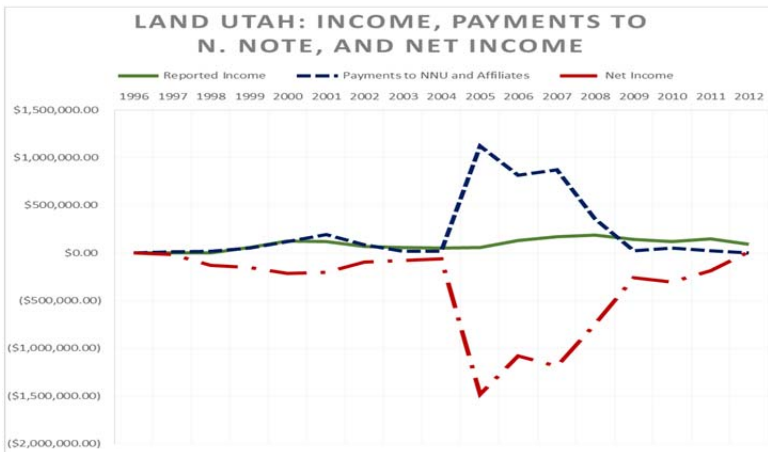
Graphic No. 56

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to NNU and Affiliates**	**Net Income**
1996	825.00	0.00	267.03
1997	1,643.83	13,200.12	-13,944.25
1998	0.00	20,199.22	-130,483.95
1999	59,974.89	50,970.06	-153,375.69
2000	123,312.26	117,714.29	-215,592.20
2001	117,710.84	192,344.14	-201,957.96
2002	67,384.28	84,250.47	-95,900.61

[91] A notable example is the mobile home on East Meadows lot #1. It had been recorded on the books with a value of $1,000.00. In 2005, its value was increased on the books of Land Utah to $40,950.00.

2003	58,378.33	20,275.71	-78,121.21
2004	50,782.18	18,400.72	-60,486.93
2005	58,374.00	1,122,454.35	-1,479,643.10
2006	130,030.75	817,481.61	-1,077,832.38
2007	172,671.01	873,342.69	-1,189,875.76
2008	184,874.45	360,000.00	-744,122.06
2009	140,934.61	23,000.00	-257,939.39
2010	122,137.00	53,355.00	-304,500.63
2011	147,745.35	25,500.00	-186,044.88
2012	93,821.00	0.00	14,054.10
Total	**1,530,599.78**	**3,792,488.38**	**-6,175,499.87**

Graphic No. 57



By 2012, the accumulated negative net income was $6,175,499.87. The amount that Land Utah expensed to N. Note and its affiliates overall was more than the total income of Land Utah—in fact, it was nearly two and a half times the gross income of Land Utah. In other words, for every dollar of income to Land Utah, the company expensed $2.48 to N. Note and affiliates.

2005 also saw some dramatic changes in expenses. In 2004, Land Utah recorded an interest expense of $18,400.72. The next year, its interest expense skyrocketed to $1,122,454.35, a 61-fold increase. This caused the net income loss to balloon from $60,486.93 in 2004 to $1,479,643.10 in 2005.

While Land Utah earned $1.45 million in rents, the costs of maintaining those rental properties exceeded the rents received. Land Utah spent $1,503,294.53 in maintenance and repairs. Additional amounts were spent on remodeling, supplies, contract labor, utilities, taxes, and the set-up, tear-down, and transportation of mobile homes. The longer Land Utah owned these rental properties, the more money it lost.

f. *Flow of Funds*: N. Note provided $7,103,190.57 in cash to Land Utah or to others for Land Utah. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of Land Utah's debt to N. Note as of June 25, 2012 was $7,693,835.49. The cash and book-entry payments are summarized in the following table:[92]

Graphic No. 58

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[93]**
Principal	7,103,190.57	238,496.85	0.00	250.00	238,746.85	7,693,835.49
Interest		3,220,892.64	0.00	222,467.92	3,443,360.56	

Land Utah paid $3,459,389.49 in cash to N. Note in principal and interest payments. Because Land Utah had $6.1 million in accumulated losses, it lacked the funds to make these interest and principal payments to N. Note. Land Utah had to use cash provided by N. Note in order to make these payments.

11. NPL America, LLC:

a. *Background*: NPL America, LLC ("NPL") was a limited liability company formed October 1, 2009. NPL had two owners: Homeland Funding and Land Utah,

[92] *See* Affiliate Loan Transactions Summary, at Tab 5.
[93] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transactions Summary, at Tab 5.

each owning 50% of the company. There were three managers, Palmer, Reed Larsen, and Victor Wagner (an employee of N. Note). N. Note maintained the bank accounts and financial records of NPL.

b. *Business Operations*: NPL[94] was created to hold title to a group of run-down homes in low income neighborhoods in Chicago, Cleveland, Toledo, and Memphis. NPL paid very little for these homes.

c. *Source of Funding*: N. Note provided $24,530.89 in cash payments to NPL or its creditors.[95] This debt was represented by a promissory note having a 12% interest rate, the same interest rate at which N. Note was borrowing money from investors. NPL had no initial capital; all of its funding came from N. Note. There were no bank loans or monies provided directly by investors. The company had minimal income (which were loan points earned). Its primary expenses related to interest paid to N. Note, travel, marketing, and property maintenance.

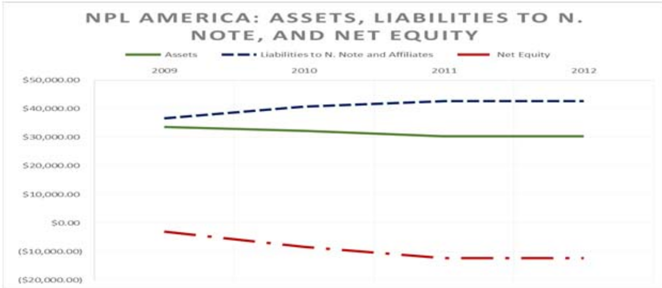
d. *Financial Analysis—Equity*: NPL's 2009 balance sheet listed seven homes owned by NPL, having a total value of $31,689.00.[96] Nevertheless, NPL still owed more than these amounts to N. Note, leaving NPL with negative net equity every year, as shown in the following table:

Graphic No. 59

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note and Affiliates**	**Net Equity**
2009	33,610.79	36,636.21	-3,025.42
2010	32,345.10	40,729.03	-8,383.93
2011	30,417.15	42,649.38	-12,232.23
2012	30,405.15	42,649.38	-12,244.23

[94] The initials "NPL" stand for "non-performing loans," indicating the types of properties to be owned by this entity.
[95] *See* Affiliate Loan Transactions Summary, at Tab 5.
[96] NPL America Historical Financial Summary, at Tab 19.

Graphic No. 60

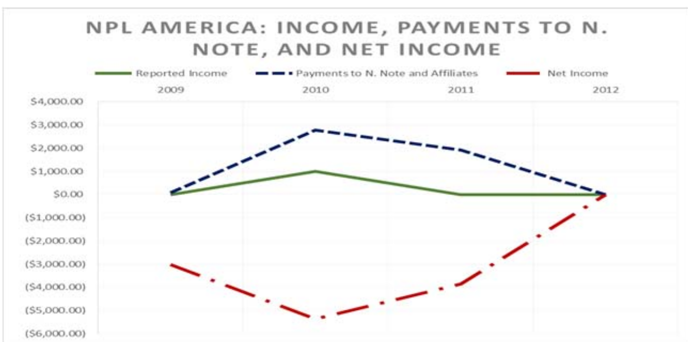


e. *Financial Analysis—Income*: The homes owned by NPL were not rented, but stood vacant.[97] The minimal amount of income reported by this company came from loan points and interest. The lack of significant operating revenue led to net operating losses every year:

Graphic No. 61

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note and Affiliates**	**Net Income**
2009	2.24	73.56	-3,025.42
2010	992.65	2,790.82	-5,358.51
2011	0.00	1,920.35	-3,848.30
2012	0.00	0.00	-12.00
Total	**994.89**	**4,784.73**	**-12,244.23**

Graphic No. 62



[97] In some cases, governmental agencies demolished the homes and sent invoices to NPL for the costs of demolition.

The lack of operating income, while the company still had operating expenses, assured that NPL would suffer net operating losses. The fact that NPL owed more to N. Note and affiliates than the value of these properties assured that NPL would have negative net worth.

f. *Flow of Funds*: N. Note provided $24,530.89 in cash to NPL or to others for NPL. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of NPL's debt to N. Note as of June 25, 2012 was $29,313.38. The cash and book-entry payments are summarized in the following table:[98]

Graphic No. 63

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[99]**
Principal	24,530.89	2.24	426.44	0.00	428.68	29,313.38
Interest		0.00	4,784.73	0.00	4,784.73	

12. Old Glory Minting Company, LLC

a. *Background*: Old Glory Minting Company, LLC ("OGM") was a limited liability company formed March 10, 2009. The company had three members, Homeland Funding, Superior Properties (Larsen), and Clendon Parr. According to Palmer, Homeland Holding owns 70% of this company, with the other 30% owned by "RDK."[100] Palmer and Larsen were managers of OGM. N. Note maintained the financial records for OGM.

b. *Business Operations*: NNU acquired OGM in 2009. OGM was in the business of purchasing refined gold and silver, then "striking" coins or bars with the imprint of

[98] *See* Affiliate Loan Transactions Summary, at Tab 5.
[99] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transaction Summary, at Tab 5.
[100] This information came from an exhibit to a court filing made by Palmer on October 15, 2013. [Doc. No. 477]

one of the dies used by OGM. OGM's assets consisted of accounts receivable, prepaid metals, equipment, and raw materials. The company leased its factory space and most of its equipment.

c. *Source of Funding*: N. Note provided $344,584.84 in cash payments to OGM or its creditors. In the first two years of its operations, OGM borrowed significant amounts from N. Note. This money bore an 18% interest rate. However, N. Note also borrowed lesser amounts of money from OGM. By 2011, the net flow of borrowed funds had reversed; OGM had repaid the monies it owed to N. Note and N. Note owed money to OGM. Other affiliates also borrowed money from OGM and loaned money to OGM. [101]

OGM had no initial capital of its own. Its financial statements reflect no bank funding and no investor monies invested directly in OGM.[102] Most of OGM's operational funding came from its customers. The nature of OGM's business model resulted in enormous amounts of cash flowing through the company. OGM's policies required customers to pay, in advance, for the metals that would be used in the minting of coins and bars. OGM told customers that their funds would be sent to refineries the same day the customer funds were received and used to purchase the precious metals needed to mint coins and bars. The OGM business resulted in cash flow of close to $15 million in 2010 and 2011. As discussed below, a substantial amount of this cash flow was loaned by OGM to N. Note and other affiliates.

OGM's income came from the sales of minted coins and shipping charges. Its primary expenditures were for the purchase of precious metals, payroll, equipment leasing, marketing, and shipping.

d. *Financial Analysis—Equity*: OGM valued its assets in 2012 at $1.3 million. The assets consisted primarily of prepaid metals ($586,000.00) notes receivable from N.

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[101] OGM Historical Financial Summary, at Tab 20.
[102] Investors did, however, purchase equipment from OGM and lease it back to OGM. This raised cash for OGM, but obligated it to make monthly lease payments to the equipment owners.

Note and affiliates ($804,000.00), and raw materials (-$267,676.75). The company had negative equity from the inception. It had negative equity of $276,110.20 its first year of operations in 2009. By 2012, negative equity had grown to $442,207.20. The net equity of OGM is shown on the following table:

Graphic No. 64

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note and Affiliates**	**Net Equity**
2009	351,536.31	306,420.33	-276,110.20
2010	1,504,391.60	222,412.72	-430,385.96
2011	1,292,117.34	924,221.47	-322,513.89
2012	1,362,645.21	998,952.77	-442,207.20

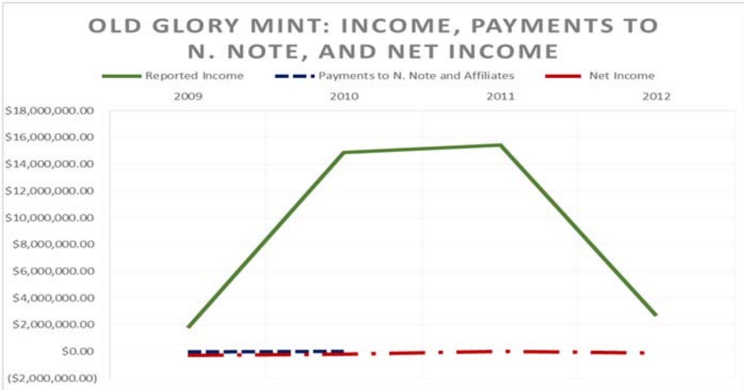
Graphic No. 65

e. *Financial Analysis—Income*: OGM suffered significant operating losses during the time it was owned by NNU.

Graphic No. 66

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note and Affiliates**	**Net Income**
2009	1,800,893.66	4,300.35	-276,110.20
2010	14,902,832.89	24,756.86	-194,918.13
2011	15,455,206.05	0.00	42,265.34
2012	2,672,523.87	0.00	-119,693.31
Total	**34,831,456.47**	**29,057.21**	**-548,456.30**

Graphic No. 67



Notwithstanding the high volume of business, the company lost money three out of its four years of operation. First year losses were $276,110.20. By 2012, aggregate losses totaled $548,456.30. OGM did report an operating profit of $42,265.34 in one year (2011), but this was only because it paid no interest on the amounts it owed to other affiliates of N. Note.

A large part of the reason for OGM's cash flow difficulties was that N. Note was borrowing cash from OGM. As noted above, customers were required to pay in advance for the cost of the precious metals to be used to mint their coins. However, substantial amounts of those customer funds were not forwarded to refineries to purchase metals; instead, N. Note borrowed funds from OGM. This resulted in OGM using money from later customers to purchase metals that were then minted and delivered to earlier customers. By the second year of its operations (2010), OGM owed more to its customers than the total value of the company's assets.

Beginning in 2010, cash sent to OGM by customers was borrowed by N. Note and its affiliates. Between 2010 and 2012, OGM funds also were sent to N. Note, Homeland Funding, Homeland Development I, Expressway Business Park, Homeland Minerals, Homeland Holding, Riverbend Estates, and to other companies owned by Palmer and Reed Larsen.

For example, in 2011 N. Note took $941,005.56 from OGM.[103] This withdrawal of cash from the company occurred when OGM had total net income of $42,265.34—meaning N. Note took money that OGM did not own. In 2011 OGM had liabilities exceeding assets by $322,513.89.[104] In 2012, N. Note transferred to OGM N. Note's rights to receive interest payments from ND 1.[105] Entries were made in the books of OGM showing the transfer and placing a value of $200,000.00 on the note receivable from ND 1, thereby reducing N. Note's liability to OGM by $200,000.00. However, that "book entry" increase in the amount owed to OGM (now due from ND 1) did not solve OGM's need for cash to buy metals in order to mint coins already paid for by customers.

One indication of the cash shortage faced by OGM is that in 2011 and 2012, OGM recorded "negative" amounts of raw materials. In other words, OGM owed precious metals to customers that it did not possess. Similarly, in 2009 and 2010, OGM recorded that it held finished coins and bars in inventory; by 2011, OGM reported that it had no finished coins or bars in its inventory. In 2011 (and perhaps earlier), OGM began "leasing" silver from its customers. It paid a lease fee to the customers in exchange for the customers leaving their metals at OGM and allowing the company to use those metals to satisfy orders from others—based on a contractual pledge by OGM to replace those leased metals within 20 business days. In reality, OGM used these leased metals to satisfy orders from other customers without replacing them.[106]

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[103] *See* NNU Affiliate Money Flow, at Tab 4.

[104] OGM Historical Financial Summary, at Tab 20. All of this, except $47.01 in shared expenses, was classified as a loan from OGM to N. Note. None of it was repayment of prior loans that N. Note had made to OGM.

[105] This home is the primary asset of ND 1, discussed in Appendix A.

[106] On September 4, 2013, Paul Hawkins, one of these OGM leaseback customers, sought intervention in the SEC civil case, alleging that his leased silver was used by OGM to satisfy debts to others. [Doc. No. 427]

The cash that N. Note borrowed from OGM prevented OGM from meeting its obligations to its customers because OGM lacked any equity capital or operating profits to be able to loan those amounts to N. Note.

f. *Flow of Funds*: N. Note provided $344,584.84 in cash to OGM or to others for OGM. As of June 25, 2012, OGM had repaid this loan.[107] The cash and book-entry payments are summarized in the following table.

Graphic No. 68

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[108]**
Principal	344,584.84	363,947.97	0.00	0.00	363,947.97	0.00
Interest		5,752.03	19,363.13	0.00	25,115.16	

13. Presidential Utah Properties, LLC:

a. *Background*: Presidential Utah Properties, LLC ("PUP") was a limited liability company that was formed on February 7, 2006. It was wholly owned by Homeland Funding. The managers of PUP were Palmer and Reed Larsen. N. Note maintained the financial records of PUP.

b. *Business Operations*: PUP owned an office building in Ogden, Utah. PUP's intended business was to manage and redevelop this property.

c. *Source of Funding*: N. Note provided $1,064,826.41 in cash payments to PUP or its creditors.[109] This debt had an 18% interest rate. PUP had no initial capital. All of its

[107] *See* Affiliate Loan Transactions Summary, at Tab 5. During this time period, OGM did still owe funds to other NNU affiliates

[108] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transaction Summary, at Tab 5.

funding came from N. Note or from the sale of a partial interest in the office building. I have found no funding from banks or from investors directly to PUP. The company's revenue came from rentals and a gain on the sale of a majority interest in the building. The primary categories of expenditures were interest and points to N. Note, payments to the co-owner, maintenance, utilities, and taxes.

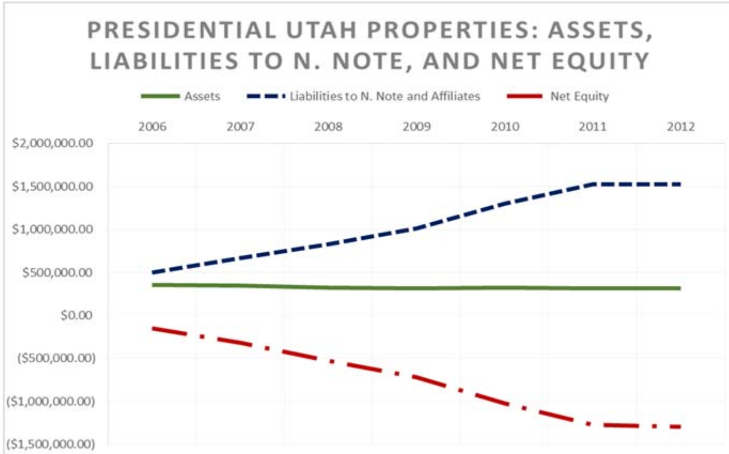
d. *Financial Analysis—Equity*: PUP purchased the building in 2005 for $700,000.00. On June 28, 2006, PUP sold a 50.8% interest in the office building to another person for $508,000.00. This sale valued the building at $1,000.000.00. PUP recorded a one-time gain of $122,679.00 on the sale of this 50.8% interest. In 2006 and every year thereafter, PUP owed more to N. Note and other affiliates than the total value of PUP's assets. The gap widened every year and by 2012 PUP owed over $1.2 million more to NNU than the recorded value of all its assets. The company had negative net worth every year, as shown in the following table:

Graphic No. 69[110]

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note and Affiliates**	**Net Equity**
2006	351,914.54	496,950.33	-147,085.79
2007	351,192.34	671,681.63	-319,152.62
2008	326,195.69	828,105.57	-523,777.33
2009	316,603.35	1,013,514.19	-714,142.76
2010	324,295.04	1,302,530.24	-1,022,860.71
2011	317,360.36	1,522,365.74	-1,271,288.49
2012	315,795.60	1,523,781.28	-1,292,794.65

[109] *See* Affiliate Loan Transactions Summary, at Tab 5.
[110] Presidential Utah Properties Historical Financial Summary, at Tab 21.

Graphic No. 70

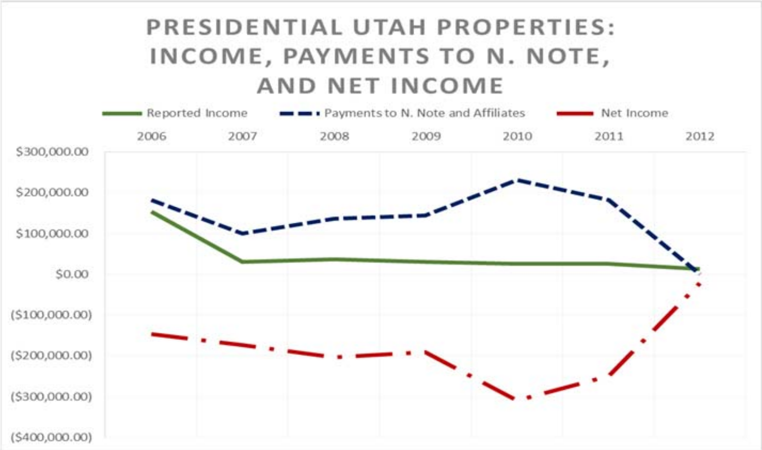


e. *Financial Analysis—Income*: PUP lost money every year of its operations. The negative net income of PUP on an annual basis is shown below:

Graphic No. 71

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note and Affiliates**	**Net Income**
2006	153,464.52	182,110.18	-147,085.79
2007	29,980.00	99,631.20	-173,788.79
2008	36,795.37	136,670.76	-202,902.75
2009	30,700.00	144,608.62	-190,365.43
2010	25,988.00	230,851.00	-308,717.95
2011	25,800.00	182,968.54	-248,427.78
2012	12,900.00	0.00	-21,506.16
Total	**315,627.89**	**976,840.40**	**-1,292,794.65**

Graphic No. 72



By 2012, the accumulated negative net income was $1,292,794.16. In addition to the more than $968,000.00 that PUP expensed to N. Note in interest and points, PUP also paid $8,353.92 in "late fees" in 2007 and 2008. This is noteworthy since NNU controlled the bank accounts of PUP and determined whether and when PUP would make interest payments to N. Note. N. Note could have had PUP make payments to N. Note on time (or waive the late fees), but did not do so. This practice increased the amount of income from PUP to N. Note.

After the sale of the partial interest, PUP began sending annual payments to the co-owner—despite PUP never making a profit. This was denominated a "master lease expense." These payments to the co-owner caused PUP to lose even more money each year and worsened its negative equity.

Other than the gain on the sale of the 50.8% of the building in 2006, the sole income for PUP was rental income from tenants of the office building. This rental income averaged about $30,000.00 a year. However, expenses averaged $262,000.00 a year—more than eight times income. Put differently, it cost PUP $8.73 in expenses for every $1.00 of income it earned. Other manifestations of the imbalance between income and expenses include:

i. Interest Payments as a Share of Rental Income: Interest payments to N. Note were always at least three times the amount of rental income PUP received; in 2010, interest payments expensed to N. Note were nearly nine times the total income for PUP.

ii. Master Lease Expenses as a Share of Rental Income: Master lease expenses to the co-owner were greater than the total amount of rents received each year after 2006. The co-owner did not share in any of the expenses of operating the building and received payments regardless of operating losses.

iii. Operating Expenses Exceeded Rental Income: Ordinary operating expenses, consisting of only maintenance, repairs, insurance, taxes, and utilities, were greater than the rental income for PUP. Even if PUP had not expensed the $968,486.48 in interest payments and points to N. Note and its affiliates, PUP still would have incurred total expenses more than twice the amount of its income.

f. *Flow of Funds*: N. Note provided $1,064,826.41 in cash to PUP or to others for PUP. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of PUP's debt to N. Note as of June 25, 2012 was $1,524,449.02. The cash and book-entry payments are summarized in the following table.[111]

Graphic No. 73

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[112]**
Principal	1,064,826.41	395,782.91	6,344.15	0.00	402,127.06	1,524,449.02
Interest		31,661.99	830,318.00	80,000.00	941,979.99	

[111] *See* Affiliate Loan Transactions Summary, at Tab 5. This is close to the $1,523,781.28 shown on PUP's internal financial statements.
[112] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transaction Summary, at Tab 5.

PUP made $427,444.90 in cash principal and interest payments to N. Note. This amount is greater than the total income reported by PUP. And, since PUP lost money every year, it lacked sufficient net cash to be able to make these payments. The only source of cash for PUP to pay $464,414.73 to N. Note was $122,679.00 from the sale of the 50.8% interest and from cash loaned to it by N. Note.

14. The Property Company, LLC:

a. *Background*: The Property Company, LLC ("TPC") was a limited liability company organized July 5, 1994. TPC was owned by Palmer. Palmer was the manager of TPC. N. Note maintained the financial records for TPC.

b. *Business Operations*: The Property Company ("TPC") was a licensed real estate company, having obtained a license on July 15, 1994. TPC's assets consisted primarily of eight real estate properties (including the offices of NNU), notes receivable from N. Note and other affiliates, and an oil investment. The business of TPC appears to have been to manage certain real estate assets, earn commissions on property transfers by other NNU entities, and hold certain investments.

c. *Source of Funding*: N. Note provided $245,280.36 in cash to TPC or its creditors.[113] The funds provided by N. Note to TPC were represented by six different promissory notes. These notes had interest rates ranging from 12% to 18%. The capital for TPC appears to have come from N. Note. I have not found that investors provided capital directly to TPC. TPC did, however, have numerous loans securing the properties that were held by TPC. For a time, TPC made loan payments to the lenders who had liens on these properties. TPC's income consisted primarily of commissions earned on real estate transactions, rental income,

[113] *See* Affiliate Loan Transactions Summary, at Tab 5.

gains from property sales, and investment dividends. The main categories of expenses were interest expense, sales commissions, losses on property sales, rents, and donations.

d. *Financial Analysis—Equity*: Several real estate holdings were sold by TPC between 1995 and 2012; some were sold at a loss and others were sold at a profit. At the time the receivership was created, one property—NNU's office building in West Jordan, Utah—was still in TPC.

All of the properties held by TPC were subject to significant debt. In most cases, the debt was above or nearly equal to the purchase price of the property, leaving no equity. For example, in 2010, TPC reported that its office building in West Jordan, Utah had a value of $174,763.54. Yet, it owed $209,584.05 in mortgages on the property.[114] Funds borrowed for the Pet Urgent Care property and the oil investment were also greater than the recorded values of the assets for most years.[115] The Eldorado Street property, was the exception; it was valued at significantly more than debt tied directly to that property.

In later years, monies owed to TPC by NNU entities reflected a significant share of the total assets of TPC, ranging from 27.4% in 2008 to 70.1% in 2012.[116] During all of these years, if the affiliates did not pay their debts, TPC would have had negative net equity. The company's assets and liabilities to NNU for each year are shown in the following table:

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[114] The Property Company Historical Financial Summary, at Tab 22.

[115] For the Pet Urgent Care property, TPC reported a valuation of $222,105.39 in 2008, the year before the building was sold. At the same time, TPC showed a note payable (to N. Note) on the property in the amount of $366,986.89. After the property was sold, TPC continued to carry $145,278.97 on its books as a debt to N. Note. See TPC internal financial statements at Tab 8. This amount represents TPC's loss on the sale of this property. The Pet Urgent Care debt to N. Note constitutes the majority of the $199,128.12 that NoteSmith records as being owed to N. Note at the time NNU was closed down. Because the property had already been sold, this debt to N. Note was not secured by any real estate.

[116] At the same time, TPC owed monies to N. Note and other affiliates. These cross-loans were not offset on the books of TPC or the affected NNU entities.

Graphic No. 74

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note and Affiliates**	**Net Equity**
1995	189,378.59	0.00	19,378.59
1996	203,670.56	0.00	44,654.06
1997	300,940.60	0.00	47,966.74
1998	209,061.73	0.00	22,994.17
1999	193,864.38	8,400.00	6,302.27
2000	192,110.26	4,000.00	11,293.39
2001	393,814.39	4,000.00	19,302.95
2002	436,278.13	4,000.00	69,074.47
2003	446,542.18	4,000.00	87,337.77
2004	431,452.87	4,000.00	79,490.60
2005	623,873.33	171,900.00	192,143.78
2006	1,112,291.55	530,390.63	317,301.37
2007	1,259,913.61	660,803.80	341,281.64
2008	1,185,274.78	660,803.80	273,998.53
2009	1,216,805.74	439,095.88	457,459.85
2010	1,271,438.46	439,095.88	537,725.93
2011	1,211,052.05	439,095.88	553,112.23
2012	1,098,891.95	326,180.71	556,520.68

Graphic No. 75

Overall, for the properties that were sold, TPC earned more in gross gains than losses it suffered. Gross gains from properties sold at a profit totaled $167,390.14. Losses on property sales were $108,370.75. This made the total net gain from property sales $59,019.39. However, this number must be tempered by the costs of operating these properties while they were being maintained and closing costs related to the sales. TPC expended $400,374.38 in closing costs, depreciation, advertising, payroll, common area fees, maintenance and repairs, taxes, and rent/lease payments relating to these properties.[117] The result is that the $59,019.39 in property sale gains is dwarfed by the $376,339.01 in operating expenses and closing costs tied to these properties.

e. *Financial Analysis—Income*: Virtually all of TPC's income came from four sources: commissions, rental income, gains from property sales, and distributions from an oil investment. Most of the commissions earned came from properties that NNU sold to others. In other words, a percentage of the sales proceeds received from properties sold by NNU entities were paid to TPC as commissions.

In the 18 years from 1995 to 2012, TPC reported a profit in 14 years. Total reported net profits for this period were $890,126.07. The income is summarized in the following table:

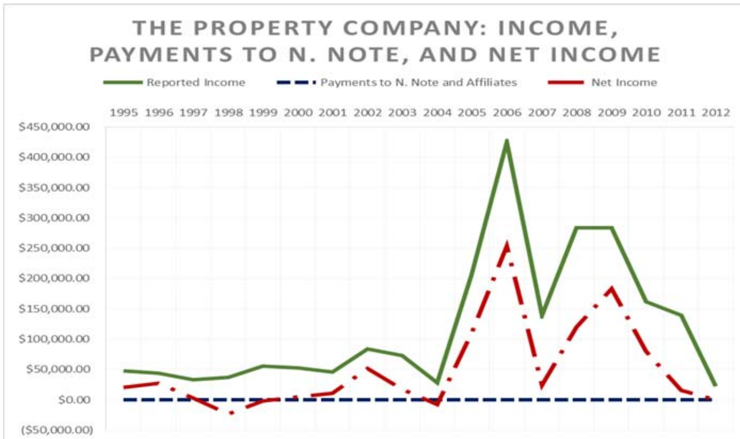
Graphic No. 76

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note and Affiliates**	**Net Income**
1995	47,500.00	0.00	20,623.76
1996	43,714.00	0.00	27,275.47
1997	33,600.00	0.00	2,616.69
1998	37,350.00	0.00	-23,594.22
1999	56,100.00	0.00	-2,071.88
2000	52,350.00	0.00	4,991.12
2001	46,349.00	0.00	11,109.56
2002	84,386.00	0.00	51,771.52
2003	72,897.91	0.00	17,938.30
2004	27,965.24	0.00	-7,847.17
2005	206,979.58	0.00	110,512.96
2006	425,274.05	0.00	253,866.65
2007	139,734.37	0.00	23,980.27
2008	283,966.10	0.00	119,982.89

[117] *See* TPC Historical Financial Summary, at Tab 22.

2009	283,351.11	0.00	183,461.32
2010	162,161.27	0.00	80,266.08
2011	139,663.73	0.00	15,386.30
2012	22,371.71	0.00	-143.55
Total	**2,165,714.47**	**0.**	**890,126.07**

Graphic No. 77



Net income was affected by TPC's failure to pay interest to N. Note on the amounts owed to N. Note.

f. *Flow of Funds*: N. Note provided $245,280.36 in cash to TPC or to others for TPC. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of TPC's debt to N. Note as of June 25, 2012 was $199,128.12. the cash and book-entry payments are summarized in the following table:[118]

Graphic No. 78

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[119]**
Principal	245,280.36	46,152.24	0.00	0.00	46,152.24	199,128.12
Interest		14,436.11	0.00	0.00	14,436.11	

[118] *See* Affiliate Loan Transactions Summary, at Tab 5.
[119] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transaction Summary, at Tab 5.

15. Riverbend Estates, LC:

a. *Background*: Riverbend Estates, LC ("Riverbend") was a limited liability company formed on November 8, 2005. The articles of organization indicate that it is wholly owned by Homeland Funding. However, Palmer has recently asserted that only 80% of Riverbend is owned by NNU, and that this interest is owned by Homeland Holding, not Homeland Funding.[120] Palmer and Larsen were the managers of Riverbend. N. Note maintained the financial records for Riverbend.

b. *Business Operations*: Riverbend was set up to own and develop 172 acres of land in Middleton, Idaho. NNU envisioned a multi-use project that would include greenbelt, residential, commercial, and assisted-living facilities. The initial land was purchased for $10.4 million. Adjacent parcels were purchased later, bringing the total land purchase price to $11.6 million. Riverbend reported spending another $796,000.00 in site improvements. The company also capitalized another $9.1 million in interest costs and property taxes bringing the total basis of the property to $21.5 million. Work stalled on the project before roads were built or any construction occurred.

c. *Source of Funding*: N. Note provided $12,675,928.65 in cash payments to Riverbend or its creditors.[121] This debt had an 18% interest rate. Funding for Riverbend's operations came from N. Note. Investors did not invest directly in Riverbend. When Riverbend bought the Middleton property, the land was subject to a lien by the seller. Riverbend later obtained a $3.6 million loan from an outside lender, replacing the seller financing. The company

[120] Doc. No. 477.
[121] *See* Affiliate Loan Transactions Summary, at Tab 5.

received modest amounts of rental income from two homes on the property. The primary expenses were interest expenses to N. Note, interest to the outside lender, and property taxes.

d. *Financial Analysis—Equity*: Riverbend recorded the value of the Middleton property on its books in June 2012 as $21,565,684.78.[122] However, the company's books indicate that the company owed more than $27 million in debts relating to this property. Riverbend had negative net equity every year of its existence.

An equity deficit occurred as soon as Riverbend purchased the property. While the 2006 property purchase price was $10.4 million, Riverbend owed $3.1 million to the property sellers and $8.8 million to N. Note. This immediately put Riverbend $1.5 million in the red. The seller loan was later replaced with financing from an institutional lender. The amount owed to the institutional lender was listed on the company's books as being $3.6 million in 2012. However, Riverbend stopped making loan payments in 2011 and the lender has asserted that by 2012 the amount owed on the loan was over $4.7 million. The amounts that Riverbend owed to N. Note grew even faster. By 2012, Riverbend owed N. Note $23.3 million. This debt to N. Note was $1.8 million more than the internal valuation of the Riverbend property. In other words, Riverbend owed more to N. Note than the value of its only asset.

In light of the institutional lender holding a first deed of trust on the property, N. Note would have been able to receive its interest only after the lender was paid off. Even if the Riverbend property could have been sold for the value listed on Riverbend's financial records, the company still would have been short $6.5 million of what it owed to N. Note.[123] The property would have had to sell for $28.0 million (in its then-current state) in order for Riverbend to satisfy all its debts.

[122] Riverbend Historical Financial Summary, at Tab 23.

[123] This assumes the institutional lender would be paid off at the closing, before any payments would go to N. Note (as is required by the terms of the mortgage given to the lender).

The size of the company's annual negative net worth is shown in the following table:

Graphic No. 79

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note and Affiliates**	**Net Equity**
2005	1,000.00	1,000.00	0.00
2006	10,401,747.28	8,878,084.07	-1,636,456.79
2007	15,194,276.89	13,123,143.70	-1,636,068.44
2008	18,842,732.61	16,762,643.70	-1,619,911.09
2009	21,273,797.46	19,900,143.72	-2,304,737.35
2010	21,556,752.40	21,755,081.17	-3,997,002.98
2011	21,567,403.44	23,464,998.65	-5,769,099.61
2012	21,572,243.19	23,460,520.78	-5,757,068.66

Graphic No. 80

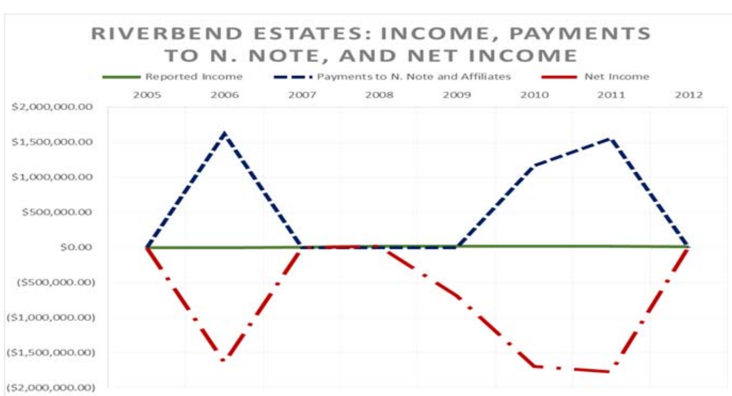
e. *Financial Analysis—Income*: Riverbend had relatively little income. This reflects the nature of the company's status as a property developer. However, six years after the purchase of the Riverbend land, no roads had been built and no buildings had been constructed. That means no property was sold. As a result, Riverbend had no income from property sales. The income it did receive came from the rental of two homes Riverbend purchased to ensure access to the property from existing roads. Riverbend reported three years of positive net income—totaling $28,576.65. Total gross income for the company was $90,494.60. This was less than 2% of the company's aggregate net losses of $5,757,068.66. The three years during which positive net income was reported were all years during which Riverbend made no interest payments to N. Note and paid no property taxes. Payment of property taxes alone would be expected to have resulted in negative income negative each of those years.

Virtually all of Riverbend's expenses (98.8%) were in three categories: interest to N. Note and affiliates, interest payments to the lender, and property taxes. The net income of Riverbend on an annual basis is shown below:

<u>Graphic No. 81</u>

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note and Affiliates**	**Net Income**
2005	0.00	0.00	0.00
2006	0.00	1,617,084.07	-1,636,456.79
2007	765.00	0.00	388.35
2008	19,088.20	0.00	16,157.35
2009	20,276.40	0.00	-684,826.26
2010	18,540.00	1,164,061.15	-1,692,265.63
2011	17,230.00	1,553,500.00	-1,772,096.63
2012	14,595.00	0.00	12,030.95
Total	**90,494.60**	**4,334,645.22**	**-5,757,068.66**

<u>Graphic No. 82</u>



With its $5.7 million in operation losses, Riverbend had no net income available to make interest payments to N. Note.

f. *Flow of Funds*: N. Note provided $12,675,928.65 in cash to Riverbend or to others for Riverbend. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of Riverbend's debt to N. Note as of June 25, 2012 was $22,648,601.41. The cash and book-entry payments are summarized in the following table:[124]

Graphic No. 83

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[125]**
Principal	12,675,928.65	0.00	0.00	0.00	0.00	22,648,601.41
Interest		600,000.00	9,828,654.05	0.00	10,428,654.05	

16. Spanish Fork Development, LLC

a. *Background*: Spanish Fork Development, LLC ("SPD") was a limited liability company formed January 27, 2006. The articles of organization filed with the Utah Division of Corporations states that SPD was wholly owned by Homeland Funding. Palmer's October 2013 filing with the Court indicates that SPD was owned by Homeland Holding. Palmer and Larsen were the managers of SPD. I have not found any bank accounts or financial statements for SPD so I do not know if SPD had any financial transactions in its name. SPD owed money to N. Note.

[124] *See* Affiliate Loan Transactions Summary, at Tab 5.
[125] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transaction Summary, at Tab 5.

b. *Business Operations*: SPD held title to a portion of the Expressway land in Spanish Fork, Utah. SPD's articles of organization state that SPD's business purpose was to engage in property development.

c. *Source of Funding*: N. Note provided $125,270.00 in cash to SPD. This debt had an interest rate of 18%.[126] Despite the 18% interest rate listed on the promissory note from SPD to N. Note, N. Note did not collect any interest from SPD. I have not been able to determine what sources of funding SPD accessed, if any, other than N. Note.

d. *Financial Analysis—Equity*: I have been unable to determine whether SPD carried any of the Expressway land on SPD's books as an asset (assuming that SPD maintained separate financial records). It is possible that the raw land listed as an asset on the balance sheet of Expressway includes land held in the name of SPD. I do not know what assets, liabilities, or net equity SPD recorded on its books, if any.

e. *Financial Analysis—Income*: I do not know what income or expenses SPD had, if any.

f. *Flow of Funds*: N. Note provided $125,270.00 in cash to SPD or to others for SPD. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of SPD's debt to N. Note as of June 25, 2012 was $125,270.00. The cash and book-entry payments are summarized in the following table:[127]

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[126] *See* Affiliate Loan Transactions Summary, at Tab 5.
[127] *See* Affiliate Loan Transactions Summary, at Tab 5.

Graphic No. 84

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance**[128]
Principal	125,270.00	0.00	0.00	0.00	0.00	125,270.00
Interest		0.00	0.00	0.00	0.00	

17. Vision Land, LLC:

a. *Background*: Vision Land, LLC ("Vision") was formed as a limited liability company on February 17, 2004. It was owned by Palmer, who was its sole manager. Palmer and Julie Palmer were the signatories on the Vision bank accounts. N. Note maintained the financial records of Vision.

b. *Business Operations*: Vision was created to acquire and hold approximately 5.5 acres of property on Little Cottonwood Road in Salt Lake City. Vision hoped to develop this land into an upscale, high-density residential project. However, no property development occurred. Vision acquired one section of the property from another developer, when the other developer became unable to make mortgage payments to the bank lender.[129] NNU paid an "assumption fee" to First National Bank and was permitted to assume the bank loan on that section.[130] The property also included two additional, adjacent sections of land. By the time the Receiver was appointed, the lender for the center section of land had already foreclosed on that property and the bank holding the loan that Vision assumed had initiated foreclosure proceedings. This left a one-acre section of land that was not encumbered by liens.

[128] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transaction Summary, at Tab 5.
[129] That other developer later declared bankruptcy.
[130] This loan assumption fee of $13,185.00 was paid in 2008. Vision Land Historical Financial Summary, at Tab 24.

c. *Source of Funding*: N. Note provided $12,299,270.56 in cash to Vision or to its creditors.[131] This debt was reflected in two different promissory notes, each having an interest rate of 18%. Vision had no initial capital; all its funding came from N. Note. I have not found any investor funds that were sent directly to Vision. As noted above, two of the three sections of property owned by N. Note were subject to liens by lenders. Vision had no material income; it reported $39.87 in income during its eight-year existence. Its expenses were primarily interest expenses to N. Note, interest payments to the bank, and property taxes.

d. *Financial Analysis—Equity*: Vision valued the Little Cottonwood Road property at $8,992,488.01 as of June 2012, with a bank loan balance of $1.5 million. However, Vision's financial records also showed $15.1 million owed to N. Note in 2012—more than one and a half times the reported value of the property Vision held. The company's assets and liabilities to NNU for each year are shown in the following table:

Graphic No. 85

NET WORTH ANALYSIS			
Year	**Assets**	**Liabilities to N. Note and Affiliates**	**Net Equity**
2006	499.69	1,500.00	-1,000.31
2007	6,521,948.99	6,523,386.70	-1,437.71
2008	9,174,711.19	7,576,702.40	-108,779.69
2009	8,862,986.85	9,593,408.98	-2,394,736.20
2010	8,992,265.10	13,116,405.17	-5,751,678.54
2011	8,992,551.25	15,079,828.85	-7,663,224.58
2012	8,992,545.25	15,107,772.38	-7,682,362.96

[131] *See* Affiliate Loan Transactions Summary, at Tab 5.

Graphic No. 86

Vision had negative net worth every year of its existence. For every year except 2008, the amounts that Vision owed to N. Note were greater than the total value that Vision assigned to its assets.

e. *Financial Analysis—Income*: Because Vision did not complete development of any properties, it had no income from property sales or any rental income. Vision suffered net losses every year of its operation. The total operating losses were $7,682,362.96. The overwhelming majority of these losses were due to interest expensed to N. Note; indeed 92.2% of Vision's recorded expenses consisted of interest expenses to NNU. The table below illustrates the net losses and amounts of interest expensed to N. Note:

Graphic No. 87

INCOME ANALYSIS			
Year	**Reported Income**	**Payments to N. Note and Affiliates**	**Net Income**
2006	0.00	0.00	-1,000.31
2007	0.00	0.00	-437.40
2008	39.87	0.00	-107,341.98
2009	0.00	2,170,785.05	-2,285,956.51
2010	0.00	3,239,595.90	-3,356,942.34
2011	0.00	1,672,900.00	-1,911,546.04
2012	0.00	0.00	-19,138.38
Total	**39.87**	**7,083,280.95**	**-7,682,362.96**

Graphic No. 88

Since Vision had no material income but significant expenses, in addition to debt owed to N. Note, Vision would have suffered net losses every year even without the interest owed to N. Note. Considering the net income losses of Vision, the company had no ability to make interest and principal payments owed to N. Note from its operations.

f. *Flow of Funds*: N. Note provided $12,299,270.56 in cash to Vision or to others for Vision. After accounting for principal and interest payments made in cash, and relevant book entries, the amount of Vision's debt to N. Note as of June 25, 2012 was $15,107,652.50. The cash and book-entry payments are summarized in the following table:[132]

Graphic No. 89

Principal and Interest Payments to N. Note in Cash and Book Entry						
		Types of Payments to N. Note				
	Cash Loaned to Affiliate	**Cash Paid to N. Note from/for Affiliate**	**Checks from N. Note #3907 to #5954**	**Other Book Entry Payments**	**Total Cash and Book Entry Payments**	**Ending Loan Balance[133]**
Principal	12,299,270.56	1,591,038.82	0.00	52,620.06	1,643,658.88	15,107,652.50
Interest		314,139.14	4,176,045.73	2,907,089.28	7,397,274.15	

[132] *See* Affiliate Loan Transactions Summary, at Tab 5.
[133] This table does not include all components of the ending loan balance. For a complete list of all components of the ending loan balance, see Affiliate Loan Transaction Summary, at Tab 5.

During its existence, Vision paid $1,905,177.96 in cash principal and interest payments to N. Note. Because Vision had negative income every year of its existence, it lacked the net income to make any payments to N. Note. Because Vision had negative equity every year, it lacked assets that could be used to repay amounts owed to N. Note. The only source of cash for Vision to make these principal and interest payments to N. Note was from cash provided to Vision by N. Note.

C. National Note of Utah:

1. Company Background: N. Note was formed as a limited liability company on December 30, 1992. The company was owned by Palmer, who also was its sole manager. He was the signatory on its bank accounts.

2. Assets, Type of Business: The primary assets held by N. Note were the notes receivable—money owed to it by some of its affiliated entities and others. By 2012, notes receivable represented 93.4% of N. Note's assets. Indeed, the dealing in promissory notes represented the central business of N. Note: notes representing monies owed to N. Note and monies that N. Note owed to investors. N. Note also held title to a few properties and accounted for them on its books. This included the Twin Pines apartments in Brigham City, Utah.[134] Over the years, real estate represented an average of 8.8% of the assets recorded on the books of N. Note.[135]

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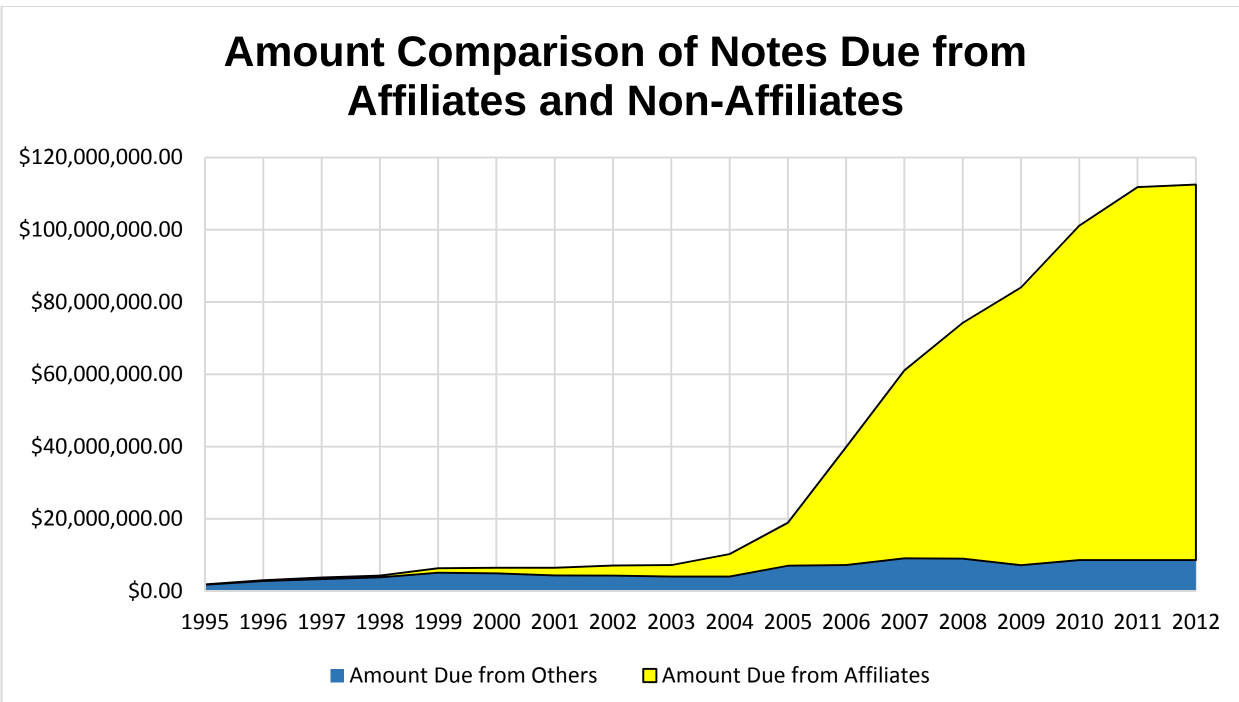
[134] N. Note also managed the Quail Hollow apartments in Vernal, Utah. N. Note maintained separate bank accounts for the operations of Quail Hollow and Twin Pines. However, the operating results of these entities were included in the balance sheets and income statements of N. Note.

[135] The percentage of N. Note's assets made up of real estate ranged generally from 1.8% to 19.7%, with one year showing 33.5% of assets being in real estate.

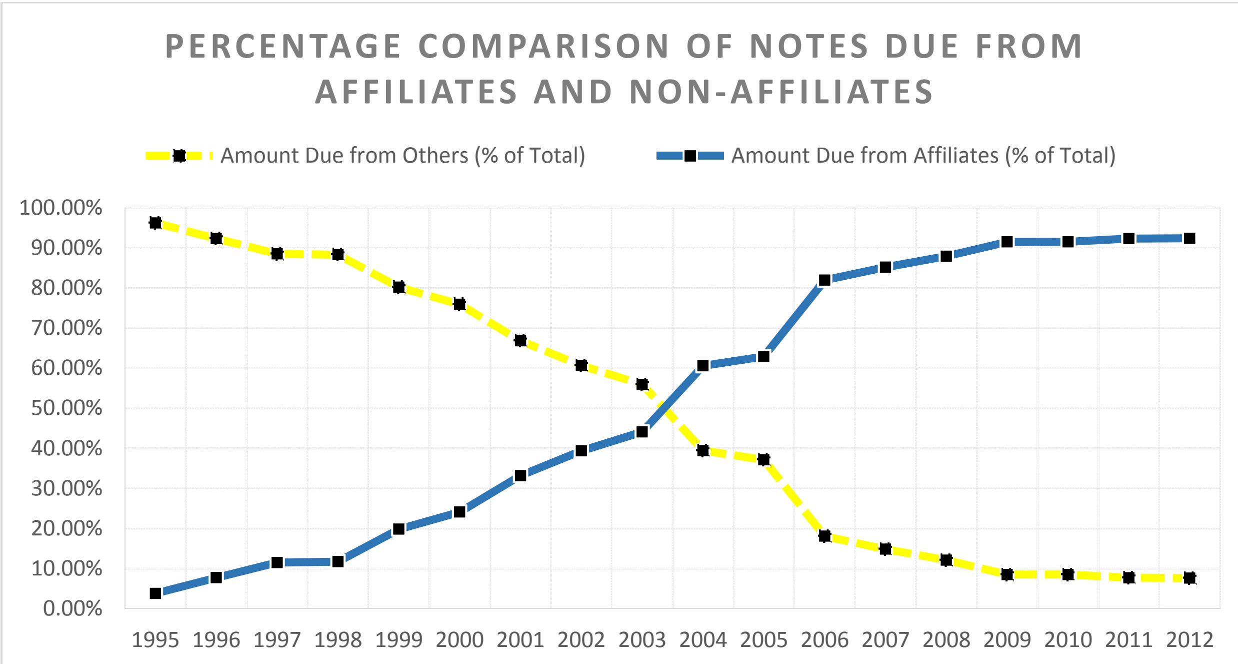
3. Sources of Notes Receivable: Notes receivable always represented a high share of N. Note's assets, ranging from 53.9% of assets to 93.3%. In the early years of N. Note's operations, most of the receivables were owed by unaffiliated borrowers. Generally these were mortgage loans.[136] In the mid-2000's two significant developments occurred: first, the total volume of notes receivable (and notes payable) jumped dramatically and, second, most of the notes receivable began to be owed to N. Note by affiliates. The tables below show the dramatic increase in the face amount of notes receivable and the increased share of notes receivable that were owed to N. Note by affiliated entities.

Graphic No. 90[137]



[136] N. Note Receivable Summary, at Tab 25.
[137] These are the same as Graphic No.'s 1 and 2, above. The graphs are repeated here to illustrate the narrative explanation.

Graphic No. 91



4. Notes Payable Owed by N. Note: Just as notes receivable represented a high share of the assets of N. Note, notes payable—amounts N. Note owed to investors—represented a large share of N. Note's liabilities. The ratio of notes payable to total liabilities ranged from 76.5% of liabilities to 99.9%. The growth in notes payable directly correlated to the growth in notes receivable; as N. Note received more money from investors, it needed to loan that money out to others at a rate higher than the 12% promised to investors. As the amount of money received from investors increased, so did the share of loans that were made to affiliates.

The table below shows, for each year, the amount and percentage of N. Note's assets that consisted of notes receivable and the amount and percentage of liabilities that consisted of notes payable.[138]

[138] N. Note Historical Financial Summary, at Tab 26. The data on this table may differ slightly from the table at Graphic No. 3 and from later tables because the data on this table derives from PeachTree records, not NoteSmith records. The different results from the various sources may relate to end-of-year differences between the systems as to when transactions were recorded or cleared, differences caused by some systems showing only cash transfers and others showing book-entry transfers, and transfers or journal entries that were later reversed.

Graphic No. 92

NOTES RECEIVABLE AND PAYABLE AS A SHARE OF N. NOTE ASSETS AND LIABILITIES						
Year	**Notes Receivable**	**Total Assets**	**NR as % of Assets**	**Notes Payable**	**Total Liabilities**	**NP as % of Liab.**
1995	1,516,161.84	1,938,524.79	78.2	1,626,278.69	1,688,376.66	96.3
1996	2,135,881.53	2,680,968.23	79.6	2,254,973.35	2,322,516.16	97.1
1997	3,270,572.29	4,052,514.83	80.1	3,550,204.83	3,620,001.81	98.1
1998	3,405,532.69	4,625,777.06	73.6	3,805,141.38	4,974,176.44	76.5
1999	4,509,869.42	5,352,289.55	84.2	4,561,256.39	5,901,087.56	77.3
2000	4,695,436.24	5,508,966.31	85.2	4,802,577.90	6,199,769.63	77.5
2001	4,377,440.38	6,320,009.15	69.2	5,608,661.57	7,107,645.78	78.9
2002	3,145,744.87	6,716,951.12	65.0	6,107,425.99	7,451,626.40	81.6
2003	3,641,678.36	6,759,642.15	53.9	7,632,049.31	8,262,417.03	92.4
2004	5,047,847.17	12,082,043.87	75.2	14,575,102.86	15,148,158.32	96.2
2005	18,928,140.04	25,560,947.05	74.1	26,626,112.57	26,819,162.87	97.8
2006	41,197,723.27	47,590,634.33	87.8	46,339,617.82	46,516,905.49	99.6
2007	59,843,934.81	64,400,599.88	92.9	62,495,824.05	62,587,828.40	99.9
2008	71,823,134.10	78,466,460.31	91.5	74,851,393.25	76,984,416.16	97.2
2009	80,740,813.33	90,132,101.04	89.6	85,437,696.28	89,151,853.25	95.8
2010	95,286,688.65	103,046,687.45	92.5	98,621,212.91	102,323,275.51	96.4
2011	106,018,700.65	115,883,913.99	91.5	109,956,499.66	114,623,417.88	95.8
2012	106,787,337.80	114,247,923.84	93.3	110,758,395.45	113,981,724.30	96.9

This table also allows us to see that the amount of notes receivable and notes payable grew in volume dramatically from 2004 to 2012. Moreover, we see that the growth of notes receivable and notes payable correspond. However, during every year, the amount N. Note owed to others as notes payable was greater than the amount of notes receivable it held as assets.[139] Because such a high percentage of N. Note's assets consisted of notes receivable, the quality of the receivables is important.

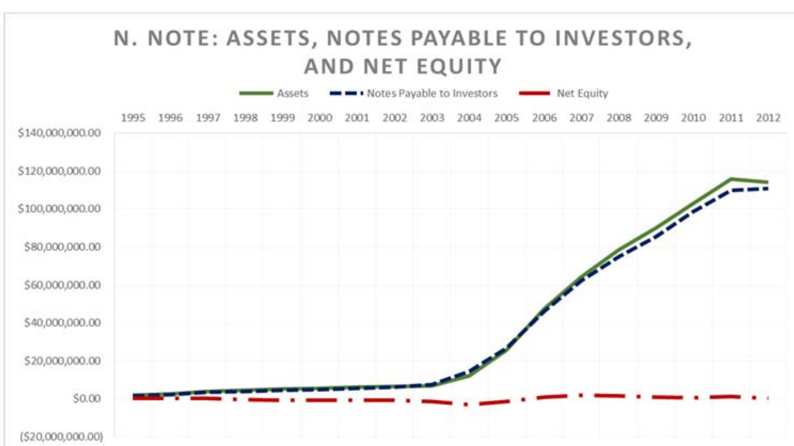
[139] The ratio of notes payable to total assets understates the severe financial problems faced by N. Note during these years because N. Note had significant additional liabilities beyond the notes it owed to investors. An accurate picture of the company's solvency is shown in the table below showing total assets, liabilities to investors, and net equity. Nevertheless, data in this chart is useful in comparing the amounts of receivables and payables and in tracking the growth in total receivables and payables year by year.

5. Financial Analysis—Equity: The assets and the liabilities to investors that N. Note reported in its internal financial records are shown in the table below. Unlike data in the tables showing the financial conditions of the various NNU affiliates, the liabilities here are monies owed to investors—not monies owed to N. Note:

Graphic No. 93

NET WORTH ANALYSIS			
Year	**Assets**	**Notes Payable to Investors**	**Net Equity**
1995	1,938,524.79	1,626,278.69	250,148.13
1996	2,680,968.23	2,254,973.35	358,452.07
1997	4,052,514.83	3,550,204.83	432,513.02
1998	4,625,777.06	3,805,141.38	-348,399.38
1999	5,352,289.55	4,561,256.39	-548,798.01
2000	5,508,966.31	4,802,577.90	-690,803.32
2001	6,320,009.15	5,608,661.57	-787,636.63
2002	6,716,951.12	6,107,425.99	-734,675.28
2003	6,759,642.15	7,632,049.31	-1,502,774.88
2004	12,082,043.87	14,575,102.86	-3,066,114.45
2005	25,560,947.05	26,626,112.57	-1,258,215.82
2006	47,590,634.33	46,339,617.82	1,073,728.84
2007	64,400,599.88	62,495,824.05	1,812,771.48
2008	78,466,460.31	74,851,393.25	1,482,044.15
2009	90,132,101.04	85,437,696.28	980,247.79
2010	103,046,687.45	98,621,212.91	723,411.94
2011	115,883,913.99	109,956,499.66	1,260,496.11
2012	114,247,923.84	110,758,395.45	266,199.54

Graphic No. 94



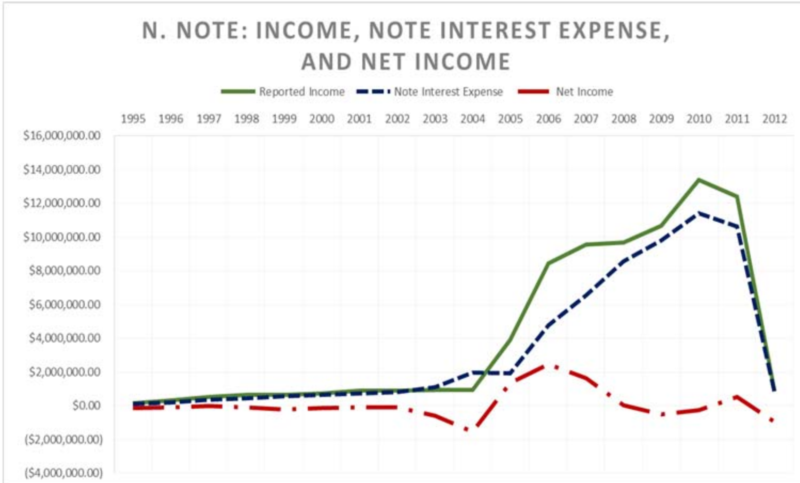
During this 18-year period, N. Note reported positive net equity during ten years. The negative net equity began in 1998 and increased almost each year until 2004. In 2005, there was -$1.2 million in net equity. This was followed by seven years during which N. Note reported positive equity.

6. Financial Analysis—Income: The reported improvement in the company's equity position from 2004 to 2005 was also found in the income statement for those years. N. Note's income, note interest expenses, and net income are summarized in the following table:

Graphic No. 95

INCOME ANALYSIS			
Year	**Reported Income**	**Note Interest Expense**	**Net Income**
1995	149,607.66	107,105.13	-124,476.26
1996	298,415.02	196,752.72	-95,503.80
1997	524,302.71	347,407.92	-32,392.02
1998	634,501.74	442,283.38	-87,372.99
1999	658,528.38	541,109.02	-205,434.22
2000	708,035.97	646,825.55	-143,660.66
2001	879,567.89	718,275.50	-95,141.47
2002	908,109.60	792,678.02	-116,962.88
2003	928,704.15	1,092,122.72	-601,669.20
2004	945,999.82	1,963,660.81	-1,559,751.52
2005	3,915,519.69	1,900,706.40	1,355,468.12
2006	8,446,891.36	4,751,050.75	2,466,203.83
2007	9,539,202.61	6,524,814.86	1,626,796.55
2008	9,667,195.20	8,570,213.83	2,766.07
2009	10,687,990.13	9,802,839.68	-501,796.36
2010	13,386,193.47	11,402,312.70	-256,835.85
2011	12,413,471.80	10,646,114.13	537,084.17
2012	835,721.23	759,366.82	-951,233.46
Total	**75,527,958.43**	**61,205,639.94**	**1,216,088.05**

Graphic No. 96



The information in this table shows that N. Note reported profits in five of these 18 years. These profits were reported from 2005 to 2008 and in 2011. The company lost money every year from 1995 to 2004. By 2003, N. Note's financial condition had deteriorated to the point that it paid out more in interest expense ($1,092,122.72) than the total income of the company ($928,704.15)—which income also included rental income, earned discounts, and commissions received. In 2004, N. Note again paid out more in interest than the total income of the company.

D. Unusual Transactions Affecting Income and Equity Reported by N. Note:

1. Facts Related to Reported Increases in Interest Income from 2005 to 2007: N. Note's financial statements reported a dramatic turnaround from 2004 to 2005, when the company's net income improved from a $1.5 million loss to a $1.3 million gain. The expenses for 2005 stayed essentially the same as 2004—actually declining 3.2%. However, total reported income increased by $2,969,519.87. The bulk of this reported increase was "note interest" categorized as "income." In 2005, N. Note recorded $2.2 million more in interest income than it had recorded the prior year. The purported source of this increased income was affiliated entities. For example, in 2005:

a. Expressway: Expressway Business Park financial records show that it expensed $102,775.99 more in interest to N. Note than it had expensed in 2004;

b. Homeland Development I: Homeland Development I expensed $51,327.99 more in interest than the prior year;

c. Homeland Funding: Homeland Funding expensed an additional $432,222.74 in interest; and

d. Land Utah: Land Utah expensed $644,948.81 more in interest to N. Note in 2005 than it expensed in 2004.

These were the same affiliates that, as explained above, had negative equity and negative net income. This interest income was recorded when N. Note made book entries in its financial records showing that income had been received, then wrote checks from its investor trust account to its investor distribution account in the amounts of the income that had been recorded on its books.

It was during this time frame that N. Note submitted regulatory filings to begin selling its securities (promissory notes) through a private offering. As part of the disclosure materials to be distributed along with the private placement memorandum, N. Note was required to provide investors with copies of its financial statements. As a result of N. Note reporting dramatically higher interest income from affiliates in 2005, N. Note turned ten straight years of net losses into a report of positive net income.

The information in the table above (Graphic No. 93) shows an acceleration of this dramatic improvement in N. Note's financial operations the following year, in 2006. Total reported income more than doubled from that of 2005 and net income increased 81.9%. The following year, 2007, saw another jump. N. Note's financial statements reported that note interest income increased another $1.5 million.

However, only about half of the note interest income that N. Note reported on its financial statements between 2004 and 2007 reflected actual cash moved from the affiliates to N. Note. The table below compares the amounts reported by N. Note on its income statement (from its Peachtree accounting records) with the actual cash flows as recorded on NoteSmith.

Graphic No. 97

N. NOTE INTEREST REVENUE: 2004-2007				
Year	**Note Interest per Peachtree**	**Note Interest per NoteSmith**	**Cash Payments per NoteSmith**	**Book Entries per NoteSmith**
2004	732,912.95	359,748.73	344,902.81	14,845.92
2005	2,948,313.29	2,643,841.88	1,738,089.08	905,752.80
2006	5,643,527.73	5,087,383.99	2,388,717.89	2,698,666.10
2007	7,149,893.27	6,028,856.25	1,689,901.42	4,329,954.83
Total	**16,474,647.24**	**14,119,830.85**	**6,170,611.20**	**7,949,219.65**

2. N. Note Paid Higher Interest Rates to Certain Investors: Many investors were told that N. Note was able to pay 12% interest to them because N. Note earned 18% on the money it loaned to others. In order to make a profit, N. Note needed to have a spread between the interest rate N. Note paid to investors and the amount it earned by loaning the money out. If N. Note paid investors the same interest rate that N. Note was earning from its loans, the company would not earn any profits. The converse also is true. If N. Note loaned money to others at a lower interest rate than N. Note was paying on the money it got from investors, N. Note would not earn profits. In fact, N. Note did both.

Records of N. Note show that from the early days of its operations, N. Note issued promissory notes promising to pay 13% to 18% interest to some investors, and, in one case, paying 36% interest for funds from an investor. Over 170 investment accounts were paid these higher rates. More than $9 million of the initial principal from these investment accounts was tied to promissory notes paying more than 12% interest. Almost two thirds of this money had an 18% interest rate.[140] The table below shows the number and amounts of initial principal sent to N. Note by investors who had interest rates of 13% or more.

Graphic No. 98

Promissory Notes to Investors Paying 13% Interest or Higher		
Rate	**# of Loans**	**Amount of Initial Investment Principal**
13%	1	26,500.00
14%	16	493,589.16
15%	48	1,062,540.00
16%	51	1,575,290.86
17%	2	32,250.00
18%	55	5,818,789.63
36%	1	55,000.00
Total	**174**	**9,063,959.65**

As a result, N. Note was borrowing money from certain investors at 18% interest in order to pay 12% interest to other investors.

During the time that N. Note was promising 18% interest to certain investors, it was still earning a maximum of 18% from the money it loaned out. None of the loans that N. Note made to its affiliates had interest rates higher than 18%. Thus, N. Note had no means of earning a profit from the money it was taking from investors at 18%. At best, the money taken from new investors at these higher interest rates provided cash flow for N. Note.

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[140] The data for this table comes from NoteSmith. Backup information for this table and the following table is found at Tab No. 27.

3. N. Note Charged Less than 12% Interest on Many Loans it Made: I found over a hundred instances where N. Note loaned money to borrowers at rates below its cost of funds—the rate it was paying to investors. These are summarized in the table below:

Graphic No. 99

Loans to Borrowers Charging Less than 12% Interest		
Rate Range	**# of Loans**	**Initial Loan Amount**
0%	34	509,757.12
5% - 7.5%	7	1,872,934.84
8% - 9.75%	42	2,175,113.64
10% - 11.75%	26	618,249.37
Total	**109**	**5,176,054.97**

The data in this table shows that for at least $5 million of the money in N. Note's bank accounts, N. Note was borrowing money from investors at 12% (or higher) and loaning it out at rates less than 12%—in some cases at 0% interest rates.

E. Questions Regarding N. Note Financial Statements:

1. N. Note's Report of Positive Net Equity from 1995 to 1997: As discussed above, N. Note's internal financial records showed that N. Note had positive equity from 1995 to 1997 in the following amounts:

Graphic No. 100[141]

REPORTED NET EQUITY FOR N. NOTE	
Year	**Amount**
1995	250,148.13
1996	358,452.07
1997	432,513.02

[141] *See* N. Note Historical Financial Summary, at Tab 26.

During these years, N. Note recorded positive amounts in a specific equity account labeled "Note Equities." Note equities related to loans that N. Note purchased at a discount from their face value. As recorded by N. Note, note equities represented the difference between the purchase price of a loan and the full amount of the loan. For example, if N. Note bought a $100,000.00 loan at a 30% discount, N. Note would record the $30,000.00 difference between its purchase price and the amount owed on the loan as note equity on the equity portion of its balance sheet. The amounts recorded on the N. Note balance sheets are shown in the following table:

Graphic No. 101[142]

"NOTE EQUITY" RECORDED ON N. NOTE BALANCE SHEETS	
Year	**Amount**
1995	306,420.31
1996	559,904.58
1997	726,438.91
1998	0.00

This "note equity" amount is also called an "unearned discount." In 1998, N. Note changed its characterization of the "note equities."[143] By the end of 1998, the amount of "note equities" was listed on internal records as $967,546.04. At the year end, N. Note made two accounting changes in its financial records relating to these "note equities." First, N. Note ceased listing "note equities" as a component of equity on N. Note's balance sheet. Second, N. Note recorded $967,546.04 as a current liability on the balance sheet. The result of these adjustments was to increase liabilities and reduce equity. Accordingly, N. Note's balance sheet showed equity of -$348,384.38 on December 31, 1998.

[142] *See* CD Containing Internal Financial Statements, at Tab 8.
[143] In the SEC's deposition of Palmer in 2012, Palmer testified that an unearned discount like this is "a liability until it's earned." Deposition of Wayne L. Palmer, May 30, 2012 at 131.

If N. Note had characterized the note equities as liabilities from the beginning, the company would have had negative net equity for the years 1995 to 1997 in the amounts in the following table:

Graphic No. 102

N. NOTE NET EQUITY WHEN "NOTE EQUITIES" ARE RECORDED AS LIABILITIES			
Year	**"Net Equities" Recorded on Balance Sheet**	**Reported Total Equity**	**Revised Equity when "Note Equities" are Recorded as Liabilities**
1995	306,420.31	250,148.13	-56,272.18
1996	559,904.58	358,467.07	-201,437.51
1997	726,438.91	432,528.02	-293,910.89
1998	0.00	-348,384.38	-348,384.38

This means that N. Note had negative net equity beginning at least in 1995.

2. N. Note Listed Non-Performing Loans from Non-Affiliates as Assets. $106,787,337.80 of the assets that N. Note listed on its balance sheet (93.4% of its assets) consisted of notes owed to N. Note by affiliates and other borrowers. However, N. Note's own records showed that a significant number of these loans were not current. These included situations where the borrowers were not current on their payments to N. Note or where N. Note had stopped showing the loan as accruing interest. The table below shows the amount and percentage of loans owed to N. Note by Non-Affiliates which were not current in the payments they owed to N. Note:[144]

[144] N. Note Non-Current Notes Receivable Broken Down by Affiliates & Others, at Tab 28. The numbers in this and the subsequent table are taken from NoteSmith records.

Graphic No. 103

Receivables from Non-Affiliated Entities Where Note Payments Were Not Current			
Year	**Total Receivables Outstanding at Year End**	**Amount Outstanding Where NoteSmith Stopped Accruing Interest During the Year**	**% of Total**
1995	1,773,049.32	141,665.02	7.99%
1996	2,783,728.66	306,788.22	11.02%
1997	3,319,928.17	496,329.74	14.95%
1998	3,804,612.10	843,741.29	22.18%
1999	5,079,161.23	1,332,431.05	26.23%
2000	4,915,520.74	1,632,167.78	33.20%
2001	4,331,304.46	1,962,369.20	45.31%
2002	4,293,819.12	2,391,898.51	55.71%
2003	4,026,149.18	3,103,671.38	77.09%
2004	4,042,029.35	3,136,245.55	77.59%
2005	7,023,420.82	3,235,600.10	46.07%
2006	7,202,815.06	4,133,190.09	57.38%
2007	9,069,620.57	4,228,636.42	46.62%
2008	8,978,278.77	6,030,805.56	67.17%
2009	7,157,640.20	7,147,574.06	99.86%
2010	8,609,058.83	8,602,991.80	99.93%
2011	8,612,720.26	8,610,415.12	99.97%
2012	8,580,267.39	8,579,654.23	99.99%

Not only did the amount of overdue payments increase every year except 2012, but the percentage of notes receivable that had stopped accruing increased almost every year. Despite more than $8.5 million of the amount owed to N. Note by non-affiliates going delinquent, N. Note still recorded this $8.5 million in receivables as an asset. [145]

Graphic numbers 2 and 96 above, and the text accompanying those graphics, discusses the $8.5 million owed to N. Note by non-affiliates, as contradistinguished from amounts owed by affiliates.

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[145] Most of this amount is overdue by more than one year.

3. N. Note Listed Non-Performing Loans from Affiliates as Assets: Affiliates of N. Note also were delinquent in making payments to N. Note.

Graphic No. 104[146]

Receivables from Affiliated Entities Where Payments Were Not Current			
Year	**Total Receivables Outstanding at Year End**	**Amount Outstanding Where NoteSmith Stopped Accruing Interest During the Year**	**% of Total**
1995	70,000.00	70,000.00	100%
1996	232,999.86	70,000.00	30.04%
1997	431,521.22	70,000.00	16.22%
1998	505,272.63	72,047.76	14.26%
1999	1,255,819.09	128,707.15	10.25%
2000	1,560,663.94	128,707.15	8.25%
2001	2,152,479.15	128,707.15	5.98%
2002	2,786,092.34	366,575.51	13.16%
2003	3,175,563.86	907,220.10	28.57%
2004	6,212,556.97	907,353.58	14.61%
2005	11,896,942.34	992,386.18	8.34%
2006	32,655,211.88	1,405,386.22	4.30%
2007	52,027,998.51	1,405,386.22	2.70%
2008	65,235,022.81	1,405,386.22	2.15%
2009	76,883,586.88	2,205,386.22	2.63%
2010	92,504,282.20	3,559,557.14	3.85%
2011	103,168,416.10	15,290,294.44	14.82%
2012	103,937,349.26	15,290,594.44	14.71%

Using this criteria, we see that N. Note was carrying on its books $15.2 million in assets that represented debts owed by affiliated entities where payments had ceased on the loans *and* where N. Note had ceased accruing interest charges during the year.

[146] *See* N. Note Non-Current Notes Receivable Broken Down by Affiliates and Others, at Tab 28.

4. Effect of Writing Off or Discounting Non-Performing Loans: If N. Note had discounted the amounts owed to it by non-affiliates—in the amount of $8.5 million—to reflect the non-performing status of the loans, N. Note would itself have had negative equity every year after 1996. The same result would occur—and be more pronounced—if N. Note had discounted the amount owed to it by affiliates to reflect the $15.2 million that had stopped accruing interest and payments. The following table shows the effect on the "receivables" assets of N. Note if these discounts were taken.

Graphic No. 105[147]

N. NOTE NOTES RECEIVABLE VALUE AFTER DISCOUNT FOR NON-PERFORMING LOANS				
Year	**Total Note Receivable**	**Non-Performing Loans: Affiliates**	**Non-Performing Loans: Non-Affiliates**	**Total Receivable Minus Bad Debt**
1995	1,843,049.32	70,000.00	141,665.02	1,631,384.30
1996	3,016,728.52	70,000.00	306,788.22	2,639,940.30
1997	3,751,449.39	70,000.00	496,329.74	3,185,119.65
1998	4,309,884.73	72,047.76	843,741.29	3,394,095.68
1999	6,334,980.32	128,707.15	1,332,431.05	4,873,842.12
2000	6,476,184.68	128,707.15	1,632,167.78	4,715,309.75
2001	6,483,783.61	128,707.15	1,962,369.20	4,392,707.26
2002	7,079,911.46	366,575.51	2,391,898.51	4,321,437.44
2003	7,201,713.04	907,220.10	3,103,671.38	3,190,821.56
2004	10,254,586.32	907,353.58	3,136,245.55	6,210,987.19
2005	18,920,363.16	992,386.18	3,235,600.10	14,692,376.88
2006	39,858,026.94	1,405,386.22	4,133,190.09	34,319,450.63
2007	61,097,619.08	1,405,386.22	4,228,636.42	55,463,596.44
2008	74,213,301.58	1,405,386.22	6,030,805.56	66,777,109.80
2009	84,041,227.08	2,205,386.22	7,147,574.06	74,688,266.80
2010	101,113,341.03	3,559,557.14	8,602,991.80	88,950,792.09
2011	111,781,136.36	15,290,294.44	8,610,415.12	87,880,426.80
2012	112,517,616.65	15,290,294.44	8,579,654.23	88,647,667.98

[147] N. Note Notes Receivable Value After Discount for Non-Performing Loan, at Tab 29.

As was noted above, N. Note's internal financial records reported positive net equity during ten of its 18 years of operations beginning in 1995. For eight of those ten "positive" years, a charge-off of the non-affiliate non-performing debt would have been enough to make N. Note report negative net equity.[148] When the non-performing note assets from both non-affiliates and affiliates are considered, N. Note would have reported positive equity in only one year—1995, the first year of its existence.[149]

5. N. Note Did Not List Ownership of Affiliates as Assets: The discussion of the affiliates, above and in the Appendix, shows that N. Note owned an interest in a number of related entities. However, the N. Note balance sheets do not list its ownership interest in these related entities as assets. The annual balance sheets do list "real estate owned." Some of the properties included in this category were, at times, listed as assets of affiliates. For a time, the balance sheet did have a line item identifying the amount of receivables due from affiliates, but this practice was changed in 2002.

I have not been able to determine from the financial records of N. Note why the company did not list its ownership interests in affiliates on its balance sheets. The private placement memorandum that N. Note prepared in 2005 indicated that the company did not have any affiliates. N. Note did have affiliates, however, and most of these affiliates had negative equity.

6. Financial Ability of Affiliates to Pay Amounts Owed to N. Note: At the time I was appointed as Receiver, 17 affiliated entities owed $103,937,349.26 to N. Note.[150] These affiliates lacked the financial ability to pay the $103.9 million they owed to N. Note, and N. Note

[148] The exceptions would be 1995 and 1996. As explained above, the positive equity reported for 1995 to 1997 were based on reporting that was later reversed.
[149] In fact, I have not found that N. Note ever wrote off any appreciable amount of non-performing loans except a few loans to employees.
[150] This information comes from NoteSmith. It includes an amount that N. Note owed itself. *See* Affiliate Loan Transactions Summary, at Tab 5.

in turn lacked sufficient funds to pay the amounts it owed to investors. The amounts owed to N. Note by its affiliates are listed on the table below:[151]

Graphic No. 106

AFFILIATES OWING MONEY TO N. NOTE			
As of June 25, 2012			
Entity Name	**# of Notes**	**Date of First Note Receivable**	**Ending Balance (Principal and Interest)**
Centennial Av.	1	6/27/05	243,444.55
DPLM	1	1/20/06	3,239,030.61
Elkhorn Estates	1	8/18/06	6,953,583.57
Expressway	2	3/31/05	13,545,800.87
H. Develop. I	1	12/9/05	7,966,896.45
H. Develop. II	1	1/3/06	5,914,292.55
H. Funding	6	10/7/97	11,173,295.39
H. Holding	6	11/17/97	7,032,110.72
H. Mortgage	5	7/9/96	0.04
Land Utah	3	8/20/96	7,693,835.49
N. Note	1	8/20/01	540,644.59
NPL America	1	9/23/09	29,313.38
Old Glory	1	3/10/09	0.00
Pres. Utah Prop.	1	2/8/06	1,524,449.02
Property Co.	6	3/8/95	199,128.12
Riverbend	1	4/5/06	22,648,601.41
Sp. Fork Dev.	1	7/22/10	125,270.00
Vision Land	2	10/25/05	15,107,652.50
Total	**41**		**103,937,349.26**

Comparing the amounts owed to N. Note by each of these affiliated entities with the financial condition of each of these affiliates, the extent to which the affiliates lacked the financial ability to pay the amount owed to N. Note is seen. This is shown by the data on the

[151] The data in this table are also taken from NoteSmith. *See* Affiliate Loan Transactions Summary, at Tab 5. The balance sheet of ND 1 shows a $200,000.00 note payable to N. Note. This $200,000.00 is not included in this table because it is not listed in N. Notes records as a receivable. As discussed earlier in this Report, N. Note assigned that receivable to Old Glory Mint.

table below as of June 25, 2012:[152]

Graphic No. 107

FINANCIAL ABILITY OF AFFILIATES TO PAY NOTES OWED TO N. NOTE				
As of June 25, 2012				
Entity	**Amount Owed on Loan**	**Net Income of Entity in 2012**	**Net Equity of Entity on 6/25/12**	**Maximum Available Net Equity Without N/P to N. Note[153]**
Centennial Aviation[154]	243,444.55			243,444.55
DPLM	3,239,030.61	-175.00	-2,446,411.36	792,619.25
Elkhorn Ridge	6,953,583.57	0.00	-291,830.21	6,661,753.36
Expressway Bus. Park	13,545,800.87	-326,856.27	-10,598,190.09	2,947,610.78
H. Development I	7,966,896.45	-152,365.84	-3,261,761.88	4,705,134.57
H. Development II	5,914,292.55	-94,159.15	-2,704,609.69	3,209,682.86
H. Funding	11,173,295.39	-115,603.56	-11,849,277.13	0.00
H. Holding	7,032,110.72	-2,822.79	-3,615,941.56	3,416,169.16
H. Mortgage	0.04	0.00	-4,880.85	0.00
Land Utah	7,693,835.49	14,054.10	-6,207,908.78	1,485,926.71
N. Note[155]	540,644.59			0.00
NPL America	29,313.38	-12.00	-12,244.23	17,069.15
Old Glory Mint	0.00			0.00
Pres. Utah Properties	1,524,449.02	-21,506.16	-1,292,794.65	231,654.37
Property Company	199,128.12	-143.55	556,520.68	199,128.12
Riverbend Estates	22,648,601.41	12,030.95	-5,757,068.66	16,891,532.75
Sp. Fork Develop.[156]	125,270.00			125,270.00

[152] The amount of principal owed comes from NoteSmith. *See* Affiliate Loan Transactions Summary, at Tab 5. The amounts of net income and equity are taken from the internal financial statements of these companies.
[153] This calculation makes some significant—but doubtful—assumptions in favor of N. Note. First, it assumes that the assets of each entity could be sold for the full amount of the value of the asset as recorded on the books of the entity. The instances of Autumn Ridge, Riverbend, and others cast doubt on this assumption. Second, in many cases, the assets of these affiliated entities consist, in substantial part, of notes owed to the affiliate by N. Note or other affiliates. Thus, these note receivable assets on the books of the companies were overvalued.
[154] This is a company controlled by Palmer's son, Lincoln Palmer. Its purpose was to operate an airplane used by NNU and its employees. I have not found any financial statements for Centennial Aviation, so its financial condition as of June 25, 2012 is unknown. Because the company's charter expired on December 1, 2011, its 2012 equity and net income could be presumed to be zero. For purposes of this analysis, I have assumed Centennial had the ability to repay the full amount.
[155] Inclusion of a note receivable from itself resulted in an artificial increase in the balance sheet. Regardless of the financial condition of the company, any obligation to pay itself would have offsetting liabilities in the same amount, making the note receivable of no net value.
[156] This affiliate repurchased property at Expressway Business Park from a buyer on July 15, 2010. Then Expressway paid $125,000.00 to Westar Equities for this property, with Spanish Fork Development ("SFD") paying $12,151.54 in cash to Westar and promising to pay $112,500.00 to Westar on contract. NNU's books showed $125,270.00 owed to it by SFD and a corresponding note payable to Westar. No financial statements have been located for SFD. Because the amount that SFD owed NNU was greater than the purchase price of the property and

Vision Land	15,107,652.50	-19,138.38	-7,682,362.96	7,425,289.54
Totals[157]	**103,937,349.26**	**-706,697.65**	**-55,168,761.37**	**48,352,285.17**

This data demonstrates that N. Note had no reasonable basis to expect to receive the full $103,937,349.26 owed to it by its affiliates—or even a majority of the money owed. Of the 17 affiliates owing money to N. Note, only one had positive equity for 2012. Only one had positive net income for 2012. If the affiliates could liquidate their assets for the full values of the property recorded on their books, the maximum amount that N. Note could recover from its notes receivable would be $48.3 million. This is less than half of the note receivable assets shown on N. Note's books, and is dwarfed by N. Note's $113.9 million in liabilities (which includes $110.7 million owed to investors).

In light of this diminished value of N. Note's assets, N. Note's liabilities exceeded its assets even more than what was reflected on N. Note's balance sheet. This situation was true for almost every year of N. Note's existence. Tables similar to Graphic No. 107 have been created for each year from 1995 to 2012. These are attached in Tab 30. The following table summarizes the end-of-year results:

no other assets or income have been identified for SFD, this entity likely would not have the ability to repay the loan. For purposes of this analysis, this table shows this entity as having the ability to repay the full amount of the loan.

[157] Subtracting the column total for net equity from the amount of principal owed does not equal the column total for maximum available net equity because in some cases, the negative net equity of an affiliate was greater than the total amount of principal owed, leaving negative net equity even without amounts owed to N. Note.

Graphic No. 108

FINANCIAL ABILITY OF AFFILIATES TO PAY NOTES OWED TO N. NOTE				
As of Year End For All Affiliates Owing Money to N. Note				
Year	**Amount of Principal Affiliates Owed to N. Note**	**Aggregate Net Income of Entities During Year**	**Aggregate Net Equity of Entities at Year End**	**Maximum Available Net Equity Without N/P to N. Note**
1995	70,000.00	20,623.76	19,378.59	70,000.00
1996	232,999.86	27,542.50	44,921.09	145,267.03
1997	431,521.22	-11,327.56	22,393.85	242,606.85
1998	505,272.63	-149,147.11	-130,669.10	220,346.81
1999	1,255,819.09	-158,566.18	-506,860.66	813,984.36
2000	1,560,663.94	-312,394.96	-817,878.61	900,737.01
2001	2,152,479.15	-292,935.63	-1,152,520.14	772,355.01
2002	2,278,092.34	-84,614.52	-1,265,876.44	1,230,526.37
2003	3,175,563.86	-298,898.45	-1,537,325.74	1,180,019.61
2004	6,212,556.97	-1,674,504.02	-3,211,726.77	2,464,676.83
2005	11,896,942.34	-3,363,960.99	-7,084,778.18	3,246,621.63
2006	32,655,211.88	-4,331,056.59	-10,579,304.23	23,874,057.57
2007	52,027,998.51	-3,506,805.30	-14,085,387.97	39,731,410.47
2008	65,235,022.81	-6,478,483.46	-20,773,765.52	46,390,849.94
2009	76,883,586.88	-8,416,015.55	-33,993,764.07	44,909,976.45
2010	92,504,282.20	-12,268,100.31	-46,907,831.33	46,930,062.92
2011	103,168,416.10	-7,551,551.34	-54,467,163.62	48,495,497.52
2012	103,937,349.26	-706,697.65	-55,168,761.37	48,352,285.17

F. Consolidation

When N. Note began using the private placement memorandum to solicit money from prospective investors, the company was required to include financial information. The private placement memoranda given to investors contained N. Note's financial statements for either 2006 or 2007.[158] These financial statements reported positive net income for N. Note and positive equity. The private placement memoranda did not include historical financial information, showing the operating results or net equity of N. Note for prior years. The financial

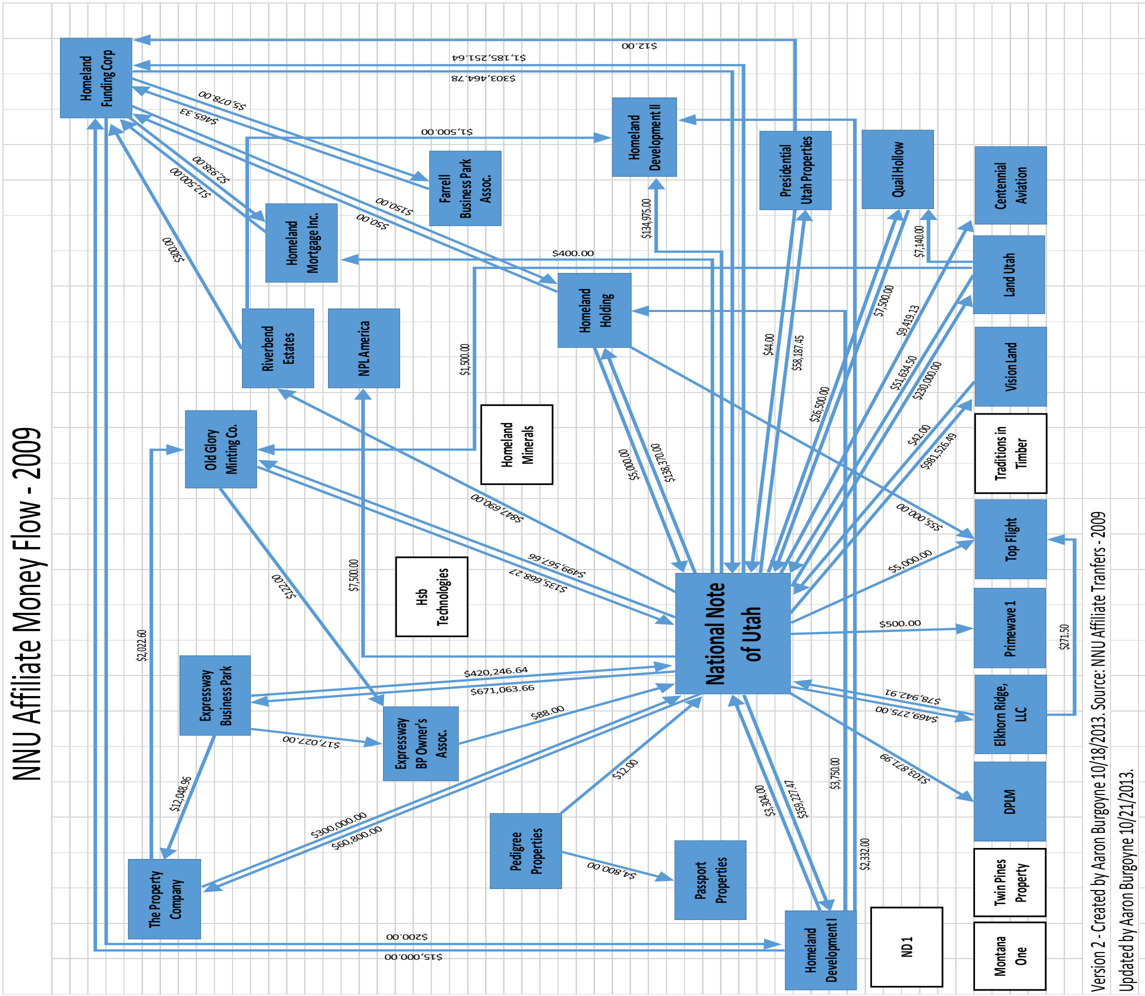
[158] Some versions of the private placement memorandum contained financial statements for 2006 and some had 2007 financial statements.

statements were also limited to N. Note; it is my understanding that no financial statements were provided to investors for any of the affiliated entities or for the NNU enterprise as a whole.

1. Factors Relevant to Consolidation: the following three factors are relevant to whether an accurate picture of the financial condition of N. Note requires consolidation of the financial statements of the 17 affiliates owing money to N. Note with the financial statements of N. Note.

a. Extent of Financial Transfers with Affiliated Entities: More than 90% of N. Note's assets consisted of monies owed to it by other entities that were controlled by Wayne Palmer.[159] N. Note received over $27 million in interest and principal payments from these affiliated entities.[160] Between 2007 and 2012, more than $48 million was transferred between N. Note and affiliated entities—and among those affiliated entities. Graphic No. 109[161] below illustrates the flow of funds between entities in 2009.[162]

[159] *See* Tab No.'s 3 and 25.
[160] *See* Affiliate Loan Transaction Summary, at Tab 5.
[161] This is the same as Graphic No. 5.
[162] Diagrams showing money flows for each year from 2007 to 2012, along with the data in tabular form are attached at Tab 4.



This chart demonstrates the extensive financial integration of these affiliated entities..

b. Extent of N. Note Reliance on Notes Owed by Affiliates: More than 90% of N. Note's assets consisted of debts owed by affiliates.

c. Control of Entities by N. Note and Palmer: N. Note or Palmer owned or controlled the affiliates that took money from N. Note and that owed money to N. Note.

2. Aggregated Financial Condition: When the net income and net equity of N. Note are aggregated with the financial statements of the 17 affiliates that owed money to N. Note, we see that the NNU enterprise had net income losses every year from 1995 forward and negative net equity every year from 1998 forward.[163] After adjusting for the "note equities" reported as equity from 1995 to 1997,[164] the NNU enterprise had negative net equity every year since 1995.

Graphic No. 110

Affiliates Owing Debts to N. Note Aggregate Net Income and Net Equity				
Year	**# of Entities Included[165]**	**Aggregate Net Income[166]**	**Aggregate Net Equity**	**As Adjusted**
1995	3	-103,852.50	269,526.72	-36,893.59
1996	5	-67,961.30	403,388.16	-196,516.42
1997	6	-43,719.58	453,944.65	-272,494.26
1998	6	-236,520.10	-479,452.24	
1999	6	-363,370.40	-935,779.81	
2000	6	-456,055.62	-1,508,681.93	
2001	6	-388,077.10	-1,901,550.87	
2002	6	-201,577.40	-2,170,551.63	
2003	7	-928,445.57	-3,070,878.54	
2004	7	-3,703,876.83	-6,774,652.38	
2005	11	-2,008,619.91	-8,757,654.81	
2006	14	-1,120,719.72	-10,167,518.72	
2007	14	-1,881,421.01	-12,272,616.39	
2008	14	-6,664,069.56	-19,291,711.37	
2009	16	-13,713,070.91	-33,013,516.28	
2010	16	-13,643,451.46	-46,614,805.21	
2011	16	-6,987,588.13	-53,527,581.40	
2012	16	-1,777,480.86	-55,344,569.03	
Total		**-54,289,877.96**		

[163] The table attached as Tab 31 shows the entities whose net income and net equity are included in this table and the year-by-year net equity totals for each.
[164] See the discussion above in Part V.E. 1.
[165] This includes the 17 affiliates owing money to N. Note and N. Note itself. However, because I have been unable to find any financial statements for Centennial Aviation or Spanish Fork Development the net income and net equity amounts listed in the table do not include numbers for those entities.
[166] *See* Net Income Summary for Receivership Entities, at Tab 32.

Three significant observations are apparent. The first is the size of the negative net equity. By 2012, the company as a whole owed investors and other creditors a staggering $55 million more than the value of all of its assets.[167] The second is how far back the financial problems go. The aggregate enterprise has been losing money since 1995. Negative net equity has existed since 1995. In other words, the financial difficulties faced by NNU were not a recent event nor were its financial problems triggered solely by the Great Recession or the collapse of real estate prices. The third observation is that the losses have been constant. This is not a company that was able to use profits from some years to cover losses in other years. This is not a company that had capital reserves it could draw on to cover operating losses during bad years.

3. Financial Performance of Affiliates Who Did Not Owe Money to N. Note: I have located financial statements for an additional nine affiliated entities that were controlled by Palmer or N. Note, but which were not listed by N. Note as owing notes payable to N. Note.[168] The financial condition of each of these companies is discussed in detail in Appendix A. Because N. Note's balance sheet did not list these entities as note obligors, they were not included in the aggregation of financial statements in this report. If the financial results of these additional affiliates were included in the aggregated financial analysis, their aggregate net income and aggregate net equity would not materially change the results of the aggregation of the financial statements discussed above. The table below shows the aggregate net income and equity for these entities.

[167] This number roughly correlates with the data in Graphic No. 107, showing the extent to which these affiliates had net equity available to satisfy their obligations to N. Note.
[168] These nine are: Homeland Minerals, HSb Technologies, Montana One, ND 1, Passport Properties, Pedigree Properties, Prime Wave 1, The Property Company Trust, and Top Flight. The Property Company Trust was a trust account controlled by Palmer, not a separate entity.

Graphic No. 111

Affiliates Not Owing Notes to N. Note			
Aggregate Net Income and Net Equity			
Year	**# of Entities Included**	**Aggregate Net Income[169]**	**Aggregate Net Equity[170]**
1995	0	0	0
1996	0	0	0
1997	0	0	0
1998	0	0	0
1999	0	0	0
2000	0	0	0
2001	0	0	0
2002	2	-5,267.00	3,876.39
2003	2	56,912.82	8,289.21
2004	2	56,922.00	13,331.21
2005	2	57,214.00	18,535.21
2006	4	53,558.40	30,552.61
2007	4	55,719.18	20,302.79
2008	5	-312,913.60	-249,072.84
2009	5	-64,433.91	-306,606.59
2010	9	-35,582.26	-247,082.85
2011[171]	9	-146,519.39	3,587,652.76
2012	9	7,097.32	3,597,362.58
Total		**-277,292.44**	

VI. NET AMOUNT OF INVESTOR FUNDS AVAILABLE TO N. NOTE

Between 1995 and 2012, investors provided more than $140 million to N. Note. However, less than $52 million of this funding was actually available for N. Note to use in its business operations. More than $88 million of the investor funds was paid out to investors as principal withdrawals or as interest. Large amounts of money paid to investors as interest did not reduce the principal amount that was owed to these investors; the principal amount of the notes still outstanding continued accruing interest. For investors who accrued their interest, the

[169] A spreadsheet summarizing the net income of each entity each year is at Tab 33.
[170] A spreadsheet summarizing the net equity of each entity each year is at Tab 34.
[171] The positive equity shown for 2011 and 2012 is a result of $3.9 million in net equity reported by Minerals.

principal amounts of their notes kept increasing. By June 25, 2012, N. Note's records showed that $110,758,395.45 was still owed to investors. That means N. Note had to be able to employ $52 million in net investor funds in a way that would be able to repay $110.7 million to investors.

The following table shows the amounts that investors sent to N. Note each year, the amounts withdrawn as principal and interest during the year, and the net funds available for N. Note's use.

Graphic No. 112[172]

SUMMARY: FUNDS FROM INVESTORS TO N. NOTE (ACTUAL MONEY FLOW)						
Source: NoteSmith Records for 1995 to 2012						
Year	**Investor Funds to NNU**	**Principal Withdrawal**	**Interest Paid**	**Total to Investors**	**Net Fee Adjustm.**	**Net Investor Funds to NNU**
1995	1,303,236.40	388,588.91	113,385.84	501,974.75	-834.84	800,426.81
1996	1,689,513.25	875,123.49	216,242.96	1,091,366.45	-1,720.73	596,426.07
1997	1,445,781.23	335,672.66	334,407.92	670,080.58	-2,938.44	772,762.21
1998	1,315,147.11	1,225,345.94	425,576.39	1,650,922.33	-1,602.14	-337,377.36
1999	1,178,742.48	462,643.96	450,636.75	913,280.71	-4,663.25	260,798.52
2000	1,520,505.16	1,305,506.54	509,299.21	1,814,805.75	-12,076.69	-306,377.28
2001	1,962,385.71	699,810.05	573,938.98	1,273,749.03	-801.72	687,834.96
2002	1,213,876.06	698,419.96	646,040.07	1,344,460.03	-625.16	-131,209.13
2003	1,658,923.93	996,674.49	737,787.96	1,734,462.45	-623.47	-76,161.99
2004	9,513,637.75	1,941,260.27	998,036.11	2,939,296.38	-633.70	6,573,707.67
2005	14,454,313.36	3,022,756.48	1,636,051.59	4,658,808.07	2,670.12	9,798,175.41
2006	23,998,734.16	5,628,774.87	2,681,674.35	8,310,449.22	1,785.48	15,690,070.42
2007	21,131,320.31	8,159,987.73	3,726,549.52	11,886,537.25	-243.42	9,244,539.64
2008	19,475,532.41	8,883,298.56	5,343,166.46	14,226,465.02	-168.00	5,248,899.39
2009	12,372,502.47	4,463,667.97	7,040,331.55	11,503,999.52	-168.00	868,334.95
2010	15,333,048.19	5,432,704.91	8,121,668.42	13,554,373.33	-8,071.84	1,770,603.02
2011	10,251,627.85	2,634,276.31	7,160,576.20	9,794,852.51	-499.08	456,276.26
2012	598,571.61	144,926.29	377,081.54	522,007.83	-8,660.60	67,903.18
Totals	**140,417,399.44**	**47,299,439.39**	**41,092,451.82**	**88,391,891.21**	**-39,875.48**	**51,985,632.75**

[172] Year-by-year details of the data in this table is at Tab 37.

The data in this table highlights three key facts: i) N. Note only had 37% of the investor monies it received available for its use, ii) despite paying $88.3 million to investors, N. Note still owed $110 million to investors, and iii) in order to repay investors, N. Note had to try and turn the $52 million into $110 million.[173]

From the beginning, N. Note failed to earn sufficient income from its actual operations—mortgage lending, property investments, property development, commodities investing, coin minting, and palladium refining—to pay the funds it owed to investors. Indeed, in light of the aggregate financial condition of NNU, N. Note had *no* net income from operations. Without net operating income or equity, N. Note's only source of funding to make payments to investors was money coming from other investors.

VII. SOURCES OF FUNDS USED TO MAKE PAYMENTS TO INVESTORS

The following section sets forth the facts relevant to whether N. Note earned sufficient revenue from operations to pay distributions to investors. This section also identifies the sources of distribution payments to investors.

A. Net Income and Net Equity:

The starting point for evaluating the source of funds used to make distributions to investors is to compare the amount of distributions paid to investors each year with the amount of net income for the enterprise. If the company (or an aggregated enterprise) earned more in net income in a year than the amount paid to investors in distributions, the distributions could have been funded entirely from the net income. The converse is also true. If net income was less than the amount of distributions, some source—other than net income from operations—had to be the source, at least in part, of investor distribution.

[173] And, with interest on that $110 million continuing to accrue at 12%, the amount needing to be repaid was growing steadily.

A company that suffers net losses and has negative net equity has no internal sources of funds to pay distributions to investors; there is no net income to make payments and no capital reserves to draw from. For NNU as a whole, this occurred in 1995. At no point after 1995 did N. Note have net income or capital reserves it could use to pay the full amount of investor distributions that it paid. This is demonstrated by the data in the table below:

Graphic No. 113

Comparison of Investor Distributions with Aggregate Net Income and Net Equity			
Year	**Distribution Payments to Investors**[174]	**Aggregate Net Income**[175]	**Aggregate Net Equity**[176]
1995	501,974.75	-103,852.50	-36,893.59
1996	1,091,366.45	-67,961.30	-196,516.42
1997	670,080.58	-43,719.58	-272,494.26
1998	1,650,922.33	-236,520.10	-479,452.24
1999	913,280.71	-363,370.40	-935,779.81
2000	1,814,805.75	-456,055.62	-1,508,681.93
2001	1,273,749.03	-388,077.10	-1,901,550.87
2002	1,344,460.03	-206,844.40	-2,166,675.24
2003	1,734,462.45	-871,532.75	-3,062,589.33
2004	2,939,296.38	-3,646,954.83	-6,761,321.17
2005	4,658,808.07	-1,951,405.91	-8,739,119.60
2006	8,310,449.22	-1,067,161.32	-10,136,966.11
2007	11,886,537.25	-1,825,701.83	-12,252,313.60
2008	14,226,465.02	-6,976,983.16	-19,540,784.21
2009	11,503,999.52	-13,768,680.15	-33,311,298.20
2010	13,554,373.33	-13,677,403.11	-46,163,575.66
2011	9,794,852.51	-7,130,373.03	-49,345,753.66
2012	552,007.83	-1,767,000.01	-51,029,954.63
Total	**88,391,891.21**	**-54,549,597.10**	

[174] Data in this column comes from NoteSmith records. *See* Funds from Investors to National Note in Graphic No. 112 and Tab 37. The amounts of distributions to investors based on actual cash payments (taken from bank records) for the years after 2007 are very similar: $11,255,329.55 (2007), $14,310,915.09 (2008), $11,614,411.40 (2009), $14,014,587.55 (2010), $9,784,014.94 (2011), and $774,985.27 (2012).
[175] This table contains data for all 26 affiliated entities, not just those owing note payable to N. Note. A detailed summary showing the results for each company by year is at Tab 35.
[176] The net equity summary includes data from all 26 entities for which I have found financial records. The net equity for 1995 to 1997 shows adjusted net equity after removal of the "note equities" entries. Year-by-year details for these entities are at Tab 36.

There was no time after December 31, 1995 when the NNU entities, considered together, had sufficient net income to cover all the distribution payments actually made to investors. When the correct net equity amounts are considered for 1995 to 1997, there was no time in 1995 or thereafter when the NNU companies, considered together, had sufficient net equity to make these distribution payments to investors. Thus, for every single year since 1995, N. Note has made distribution payments to investors when it lacked: i) positive net income from operations to pay all those distributions, and ii) equity capital in the company to draw from to fund those payments. Absent any other source of funding, N. Note's only option was to use money from new investors to fund payments to prior investors.

A company can continue in existence only if it secures a source of funds to cover its operating costs. For N. Note, those sources of funds were investors buying promissory notes. Absent the cash flow provided by investors, N. Note would have had to cease operations for lack of operating funds by 1995—if not before.

B. Operating Income:

The following facts show the sources of funds from which investor distributions could be made. The table below compares operating income of the NNU entities to the actual distribution payments to investors during 2007[177]:

Graphic No. 114

2007 Cash Flow Analysis	
N. Note and Affiliates (on an Aggregate Basis)	
Source of Funds Passing Through Bank Accounts	
Total monies passing through bank accounts	176,575,255.59
Overnight sweeps for investment income	-126,427,271.07
Transfers between affiliate bank accounts	-19,460,351.96

[177] The data in this table is based on the Receiver's analysis of actual transactions from 2007 bank records.

Reversed transactions	-378,665.01
Subtotal of Available Funds	**30,308,967.55**
New funds deposited from investors	-22,023,860.91
Distributions reinvested by investors	-2,766,937.76
Operating Income Excluding Investor Monies	**5,518,168.88**
Sources of Operating Income	
Rental income[178]	598,452.71
Property sales[179]	3,709,126.75
Investment income	86,975.25
General operating income	1,119,789.27
Unidentified	3,824.90
Total	**5,518,168.88**
Expenditure Categories[180]	
Cash distributions paid to investors[181]	11,255,329.55
Property purchases	2,862,118.92
Property improvements	8,800,612.66
Investments	162,750.00
Rental expenses[182]	1,434,262.53
Operating expenses	3,766,361.60
Unidentified	86,022.31
Total Expenditures	**28,367,457.57**

Several facts are apparent. First, the operating income of the enterprise was insufficient to cover expenses of the companies even without paying investor distributions. If investor distributions are excluded, expenditures totaled $17,112,128.02. This is more than three times the total operating income of the companies.

[178] Ordinarily, in a chart like this, one would combine rental income and rental expenses, listing only net rental income. For purposes of this chart, however, I consider the total operating income, without deducting expenses, to show that NNU's total *gross* operating income was insufficient to pay investor distributions, let alone its *net* operating income.
[179] Similarly, if gross property sales proceeds were included in the calculation of operating income it would overstate the amount of operating income. Instead, only the net sales proceeds ordinarily would be counted. However, the gross sales proceeds are included here to demonstrate that NNU's gross operating income was insufficient to pay distributions to investors.
[180] This excludes investment sweeps and investor distributions reinvested without being paid to the investors.
[181] This amount comes from my analysis of actual bank payments. It is close to the $11,886,537.25 shown on NoteSmith records for 2007. *See* Graphic No. 113.
[182] Rental expenses are more than twice the amount of rental income.

Second, investor distributions by themselves were greater than the gross operating income of the companies—by a factor of two. Because NNU paid $11.2 million in investor distributions when it had only $5.5 million in operating income, the distributions could have come only from funds provided by new investors. NNU had access to $22.0 million in investor funds that could be used for this purpose. Comparing the $5.5 million in operating income to the $11.2 million in investor distributions, we see that at least $5.7 million in investor distributions in 2007 could have come only from funds provided by new investors.[183]

A similar fact pattern exists for other years of NNU's existence as seen in the following table:

Graphic No. 115

Cash Flow Analysis				
N. Note and Affiliates (on an Aggregate Basis)[184]				
Year	**Total Operating Income**	**Non-Distribution Expenditures**	**Investor Distributions**	**New Funds From Investors**
1995	197,783.47	301,635.97	501,974.75	1,303,236.40
1996	356,756.46	411,092.78	1,090,366.45	1,689,513.25
1997	559,502.71	590,236.58	670,080.58	1,445,781.23
1998	672,107.04	893,358.98	1,650,922.33	1,315,147.11
1999	794,807.64	1,114,725.14	913,280.71	1,178,742.48
2000	1,215,226.38	1,588,186.60	1,814,805.75	1,520,505.16
2001	1,438,625.63	1,639,048.24	1,273,749.03	1,962,385.71
2002	1,417,390.33	1,579,881.11	1,344,460.03	1,213,876.06
2003	1,345,921.94	2,194,652.15	1,734,462.45	1,658,923.93
2004	930,383.56	4,007,533.53	2,939,296.38	9,513,637.75
2005	4,314,314.53	4,142,192.06	4,658,808.07	14,454,313.36

[183] This number is very conservative in favor of NNU. It assumes that investor distributions were the only uses of the gross operating income amounts and that no operating expenses were paid. To the extent that other operating expenses would have been paid from operating income, the amount of distributions that had to come from investor distributions would be even greater.

[184] For the period from 2007 to 2012, the data for this table are derived from actual bank records used by my office to reconstruct financial transactions of the NNU entities. For the period from 1995 to 2006, the information was derived from several sources. Data showing the "Investor Distributions" and "New Funds from Investors" came from NoteSmith records. *See* Graphic No. 112 and Tab 37. Year-by-year details of the data underlying this table are at Tab 38. The cash flow analysis in this table is based on what I believe are the actual cash distributions. The data for operating income and non-distribution expenditures exclude affiliate book entry transfers and income that was reported, but not actually received.

2006	11,336,457.30	11,277,183.93	8,310,449.22	23,998,734.16
2007	5,518,168.88	17,112,128.02	11,255,329.55	22,023,860.91
2008	6,866,662.11	12,256,144.49	14,310,915.09	19,802,358.66
2009	6,673,808.19	8,305,981.93	11,614,411.40	12,489,029.38
2010	17,926,971.87	21,157,959.47	14,014,587.55	16,818,612.88
2011	17,239,180.75	19,313,427.86	9,784,014.94	11,384,241.05
2012	3,073,331.82	3,498,762.29	774,985.27	807,552.16
Total	**81,877,400.61**	**111,384,131.13**	**88,657,899.55**	**144,580,451.64**

1. Income Losses: The cash flow of the NNU entities shows that NNU's operating expenses exceeded its income every year except 2005 and 2006. That means that during those 16 years, other than 2005 and 2006, there was no net operating income available to pay distributions. For 2005 and 2006, the $231,395.84 in net operating income was insufficient to fund the $12,969,257.29 in distributions paid to investors those years.

2. Investor Distributions Did Not Come From Net Income: N. Note paid investor distributions each year, for an 18-year total of $88.6 million. The full amounts of these distributions could not have been satisfied from net operating income that NNU earned during any year.[185]

3. Investor Distributions Frequently Exceeded Total Operating Income: In 12 of the 18 years, N. Note paid distributions to investors that exceeded the total operating income of the NNU entities for those years. This means that not only was there insufficient *net* income to pay distributions, but that N. Note paid out more money to investors than came into NNU from all non-investor sources. During these years, there was no source of funds to make these distribution payments to investors without using funds from new investors.

[185] As noted in the prior paragraph, a small portion of the investor distributions could have been paid from net income in 2005 and 2006.

C. Tracing Money Flows:

This section sets forth facts concerning actual money flows. These facts are relevant whether there are specific instances where funds from new investors can be traced directly as being used to pay other investors rather than used for business operations. I have identified numerous instances where new funds from N. Note investors could be traced—in whole or in part—as the source of distributions to other investors.

These examples all come from 2007 and later because this is the only time period for which I was able to use actual bank records to reconstruct the financial transactions of NNU. For the periods before 2007, we were unable to use bank records to identify all the sources of funds, the identity of recipients of each payment from the bank accounts, and the bank account balances on particular days, thereby preventing us from determining which specific payments to investors came directly from other investors. Nevertheless, as discussed in the preceding section, we do know that for each year as a whole after 1995, the company did not earn sufficient revenues from operations to fund the distributions paid to investors—showing that distributions could have been paid only with monies from new investors.

These examples demonstrate that: i) in many instances, the funds from new investors were not used to make loans, to make investments, or for property development, ii) distributions to prior investors were paid with funds that came directly from new investors, and iii) the company was aware that it was using funds from new investors to make distribution payments to prior investors.

1. Traced Fund Flows: 2007

a. February 20, 2007 (Investor Trust Account): Between February 20, 2007 and March 12, 2007, the investor trust account at Chase Bank had a maximum of $210,198.32 from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $732,137.09. Payment of these distributions was possible only because $1,860,000.00 from new investors were deposited into this account. As a result, at least $521,938.77 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 116[186]

Sources and Uses of Funds		
February 20, 2007 to March 12, 2007		
Ending Bank Balance on 2/16/07		**208,329.22**
	Reinvested interest during analysis period	171.00
	Deposits from non-investors during analysis period	1,698.10
Total Funds Available from Sources Other than Investors		**210,198.32**
	Deposits from new investors	1,860,000.00
Total Funds Available		**2,070,198.32**
	Investor distributions	732,137.09
	Transfers to affiliates	959,285.10
	Operational expenses	95,161.43
	Property purchases	130,415.17
Ending Bank Balance on 3/12/07		**153,199.53**

During this time period, N. Note had $2,070,198.32 in funds available to it in this bank account. This amount is the sum of the existing bank balance at the beginning of the period, deposits from sources other than investors, and investor deposits. Of this total, $1,184,861.70 was spent in the business of N. Note and $732,137.09 was used to make investor distributions, leaving an ending bank balance of $153,199.53. However, since the total funds available from sources other than investors was $210,198.32, the $732,137.09 paid to investors could have been paid only by using at least $521,938.77 in investor funds.[187]

[186] Summaries of these 2007 examples of traced fund flows are at Tab 39.
[187] It also follows that to the extent that some of the existing funds available from non-investor sources were used to pay operating expenses of N. Note, even a higher share of the new investor funds would have been required to fund the distributions that were actually paid out to investors.

b. June 29, 2007 (Investor Distribution Account): Between June 29, 2007 and July 17, 2007, the investor distribution account at Wells Fargo had a maximum of $37,309.65 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $250,338.76. Payment of these distributions was possible only because $602,119.23 in investor funds were deposited into this account. As a result, at least $213,029.11 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 117

Sources and Uses of Funds		
June 29, 2007 to July 17, 2007		
Ending Bank Balance on 6/28/07		**35,173.68**
	Rental income deposited during analysis period	750.00
	Accounts receivable deposits during analysis period	1,385.97
Total Funds Available from Sources Other than Investors		**37,309.65**
	Transfer from investor trust account (#3907)[188]	602,119.23
Total Funds Available		**639,428.88**
	Investor distributions	250,338.76
	Investor interest payments that were reinvested[189]	277,489.86
	Operational expenses	17,455.04
Ending Bank Balance on 7/17/07		**94,145.22**

c. July 27, 2007 (Investor Distribution Account): Between July 27, 2007 and August 14, 2007, the investor distribution account at Wells Fargo had a maximum of $176,755.64 in deposits from sources other than new investors. During this time, N. Note paid distributions to investors totaling $394,216.81. Payment of these distributions was possible only

[188] The funds deposited into this account from #3907 came directly from investors. The investor funds were deposited into the investor trust account at Chase, then transferred directly to the investor distribution account at Wells Fargo without having been loaned out or used in any business operations.

[189] These reinvested interest payments were paid out of this bank account and deposited back into NNU's investor trust account at Chase Bank. These funds were part of a circular movement of funds between bank accounts. Investor monies were deposited into the investor trust account, moved to the investor distribution account, and moved back to the investor trust account as "reinvested interest" where it was available for future transfers to the investor distribution account.

because $517,145.86 in investor funds were deposited into this account. As a result, at least $217,461.17 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 118

Sources and Uses of Funds		
July 27, 2007 to August 14, 2007		
Ending Bank Balance on 7/26/07		**176,102.39**
	Rental income deposited during analysis period	0.00
	Accounts receivable deposits during analysis period	653.25
Total Funds Available from Sources Other than Investors		**176,755.64**
	Transfer from investor trust account (#3907)	517,145.86
Total Funds Available		**693,901.50**
	Investor distributions	394,216.81
	Investor interest payments that were reinvested	212,936.66
	Operational expenses	17,477.69
Ending Bank Balance on 8/14/07		**69,270.34**

d. August 28, 2007 (Investor Distribution Account): Between August 28, 2007 and September 12, 2007, the investor distribution account at Wells Fargo had a maximum of $136,978.65 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $298,636.73. Payment of these distributions was possible only because $537,762.23 in investor funds were deposited into this account from the investor trust account. As a result, at least $161,658.08 was paid to investors that could have come only from new investor funds.[190] This is illustrated in the table below:

[190] N. Note also transferred $120,000.00 into the investor distribution account from the bank accounts of other affiliates. If these transfers are considered as non-investor income, N. Note still needed $41,658.08 from new investors to fund the distribution payments to prior investors.

Graphic No. 119

Sources and Uses of Funds	
August 28, 2007 to September 12, 2007	
Ending Bank Balance on 8/27/07	**135,090.18**
Rental income deposited during analysis period	0.00
Accounts receivable deposits during analysis period	1,888.47
Total Funds Available from Sources Other than Investors	**136,978.65**
Transfer from investor trust account (#3907)	537,762.23
Transfers from affiliated entities	120,000.00
Total Funds Available	**794,740.88**
Investor distributions	298,636.73
Investor interest payments that were reinvested	229,291.40
Operational expenses	17,021.89
Ending Bank Balance on 9/12/07	**249,790.86**

2. Traced Fund Flows: 2008

a. December 26, 2007 (Investor Trust Account): Between December 26, 2007 and February 28, 2008, the investor trust account at Chase Bank had a maximum of $1,214,749.19 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $2,427,381.54. Payment of these distributions was possible only because $4,780,105.83 in investor funds were deposited into this account. As a result, at least $1,212,632.35 was paid to investors that could have come only from new investor funds.[191] This is illustrated in the table below:

[191] Because there were $2,625,221.87 in transfers to affiliates and operational expenses during this same time period, it is possible that all the existing funds in the bank account were used for operational expenses before making investor distributions, resulting in all $2,427,381.54 in investor distributions having come from new investors. It also follows that to the extent that some of the existing funds available from non-investor sources were used to pay operating expenses of N. Note, even a higher share of the new investor funds would have been required to fund the distributions that were actually paid out to investors.

Graphic No. 120[192]

Sources and Uses of Funds		
December 26, 2007 to February 28, 2008		
Ending Bank Balance on 12/25/07		**286,473.10**
	Reinvested interest during analysis period	508,454.59
	Property sales during analysis period	412,082.50
	Deposits from non-investors during analysis period	7,739.00
Total Funds Available from Sources Other than Investors		**1,214,749.19**
	Deposits from new investors	4,780,105.83
Total Funds Available		**5,994,855.02**
	Investor distributions	2,427,381.54
	Transfers to affiliates	2,368,172.01
	Operational expenses	257,049.86
	Property purchases	241,350.50
Ending Bank Balance on 2/28/08		**700,901.11**

b. March 3, 2008 (Investor Trust Account): Between March 3, 2008 and April 30, 2008, the investor trust account at Chase Bank had a maximum of $1,553,315.05 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $2,104,410.38. Payment of these distributions was possible only because $4,440,288.92 in investor funds were deposited into this account. As a result, at least $551,095.33 was paid to investors that could have come only from new investor funds.[193] This is illustrated in the table below:

[192] Summaries of these 2008 examples of traced fund flows are at Tab 40.

[193] Because there were $2,671,514.56 in transfers to affiliates, property purchases, and operational expenses during this same time period, it is possible that all the existing funds in the bank account were used for operational expenses before making investor distributions, resulting in all $2,104,410.38 in investor distributions having come from new investors. It also follows that to the extent that some of the existing funds available from non-investor sources were used to pay operating expenses of N. Note, even a higher share of the new investor funds would have been required to fund the distributions that were actually paid out to investors.

Graphic No. 121

Sources and Uses of Funds		
March 3, 2008 to April 30, 2008		
Ending Bank Balance on 3/2/08		**700,901.11**
	Reinvested interest during analysis period	528,035.06
	Deposits from non-investors during analysis period	33,279.96
	Transfers from affiliates	39,900.00
	Property sales during analysis period	251,198.92
Total Funds Available from Sources Other than Investors		**1,553,315.05**
	Deposits from new investors	4,440,288.92
Total Funds Available		**5,993,603.36**
	Investor distributions	2,104,410.38
	Transfers to affiliates	1,550,920.68
	Operational expenses	69,177.88
	Property purchases	1,051,416.00
Ending Bank Balance on 4/30/08		**1,217,678.42**

c. October 1, 2008 (Investor Distribution Account): Between October 1, 2008 and October 30, 2008, the investor distribution account at Wells Fargo had a maximum of $347,846.80 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $587,769.92. Payment of these distributions was possible only because $769,328.03 in investor funds were deposited into this account from the investor trust account. As a result, at least $239,923.12 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 122

Sources and Uses of Funds		
October 1, 2008 to October 30, 2008		
Ending Bank Balance on 9/30/08		**270,918.51**
	Non-investor deposits during analysis period	71,412.82
	Accounts receivable deposits during analysis period	5,515.47
Total Funds Available from Sources Other than Investors		**347,846.80**
	Transfer from investor trust account (#3907)	769,328.03
Total Funds Available		**1,117,174.83**
	Investor distributions	587,769.92
	Investor interest payments that were reinvested	239,386.57
	Operational expenses	0.00
Ending Bank Balance on 10/30/08		**290,018.34**

d. October 31, 2008 (Investor Distribution Account): Between October 31, 2008 and November 30, 2008, the investor distribution account at Wells Fargo had a maximum of $362,650.48 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $565,854.34. Payment of these distributions was possible only because $830,617.75 in investor funds were deposited into this account from the investor trust account. As a result, at least $203,203.86 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 123

Sources and Uses of Funds		
October 31, 2008 to November 30, 2008		
Ending Bank Balance on 10/30/08		**290,018.34**
	Non-investor deposits during analysis period	71,384.79
	Accounts receivable deposits during analysis period	1,247.35
Total Funds Available from Sources Other than Investors		**362,650.48**
	Funds deposited directly from investor	2,100.00
	Transfer from investor trust account (#3907)	830,617.75
Total Funds Available		**1,195,368.23**
	Investor distributions	565,854.34
	Investor interest payments that were reinvested	462,389.79
	Operational expenses	1,662.00
Ending Bank Balance on 11/30/08		**165,462.10**

e. December 1, 2008 (Investor Distribution Account): Between December 1, 2008 and December 30, 2008, the investor distribution account at Wells Fargo had a maximum of $169,892.39 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $617,444.92. Payment of these distributions was possible only because $710,000.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $447,552.53 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 124

Sources and Uses of Funds		
December 1, 2008 to December 30, 2008		
Ending Bank Balance on 11/30/08		**165,462.10**
	Non-investor deposits during analysis period	0.00
	Accounts receivable deposits during analysis period	4,430.29
Total Funds Available from Sources Other than Investors		**169,892.39**
	Funds deposited directly from investor	350.00
	Transfer from investor trust account (#3907)	710,000.00
Total Funds Available		**880,242.39**
	Investor distributions	617,444.92
	Investor interest payments that were reinvested	206,611.36
	Operational expenses	14,762.00
Ending Bank Balance on 12/30/08		**41,424.11**

3. Traced Fund Flows: 2009

a. January 12, 2009 (Investor Distribution Account): Between January 12, 2009 and January 27, 2009, the investor distribution account at Wells Fargo had a maximum of $114,281.06 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $178,922.11. Payment of these distributions was possible only because $418,536.51 in investor funds were deposited directly into this account from the investor trust account. As a result, at least $64,641.05 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 125

Sources and Uses of Funds		
January 12, 2009 to January 27, 2009		
Ending Bank Balance on 1/9/09		**111,802.99**
	Accounts receivable deposits during analysis period	495.19
	Other non-investor deposits during analysis period	1,982.88
Total Funds Available from Sources Other than Investors		**114,281.06**
	Transfer from investor trust account (#3907)	418,536.51
Total Funds Available		**532,817.57**
	Investor distributions	178,922.11
	Investor interest payments that were reinvested	225,059.39
	Operational expenses	0.00
Ending Bank Balance on 1/27/09		**115,736.07**

b. February 3, 2009 (Investor Distribution Account): Between February 3, 2009 and February 27, 2009, the investor distribution account at Wells Fargo had a maximum of $222,170.92 in deposits from sources other than new investors. During this time period, N. Note paid distributions totaling $695,459.53. Payment of these distributions was possible only because $708,000.00 in investor funds were deposited directly into this account from the investor trust account. As a result, at least $473,288.61 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 126

Sources and Uses of Funds		
February 3, 2009 to February 27, 2009		
Ending Bank Balance on 2/2/09		**143,136.02**
	Accounts receivable deposits during analysis period	1,531.16
	Other non-investor deposits during analysis period	77,503.74
Total Funds Available from Sources Other than Investors		**222,170.92**
	New investor funds	708,000.00
Total Funds Available		**930,170.92**
	Investor distributions	695,459.53
	Investor interest payments that were reinvested	203,699.07
	Operational expenses	13,222.42
Ending Bank Balance on 2/27/09		**17,789.90**

c. March 3, 2009 (Investor Distribution Account): Between March 3, 2009 and March 31, 2009, the investor distribution account at Wells Fargo had a maximum of $232,029.17 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $641,967.29. Payment of these distributions was possible only because $705,068.59 in investor funds were deposited into this account from the investor trust account. As a result, at least $409,938.12 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 127

Sources and Uses of Funds	
March 3, 2009 to March 31, 2009	
Ending Bank Balance on 3/2/09	**13,879.90**
Accounts receivable deposits during analysis period	1,531.16
Other non-investor deposits during analysis period	216,618.11
Total Funds Available from Sources Other than Investors	**232,029.17**
Transfer from investor trust account (#3907)	705,068.59
Total Funds Available	**937,097.76**
Investor distributions	641,967.29
Investor interest payments that were reinvested	223,581.85
Operational expenses	13,820.71
Ending Bank Balance on 3/31/09	**57,727.91**

d. April 1, 2009 (Investor Distribution Account): Between April 1, 2009 and May 1, 2009, the investor distribution account at Wells Fargo had a maximum of $62,067.99 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $641,247.88. Payment of these distributions was possible only because $1,202,949.95 in investor funds were deposited into this account from the investor trust account. As a result, at least $579,179.89 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 128

Sources and Uses of Funds	
April 1, 2009 to April 30, 2009	
Ending Bank Balance on 3/31/09	**57,727.91**
Accounts receivable deposits during analysis period	1,585.97
Other non-investor deposits during analysis period	2,754.11
Total Funds Available from Sources Other than Investors	**62,067.99**
Transfer from investor trust account (#3907)	857,434.24
Total Funds Available	**919,502.23**
Investor distributions	641,247.88
Investor interest payments that were reinvested	874.00
Operational expenses	13,806.57
Ending Bank Balance on 4/30/09	**263,573.78**

e. May 11, 2009 (Investor Distribution Account): Between May 11, 2009 and May 29, 2009, the investor distribution account at Wells Fargo had a maximum of $130,592.96 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $161,900.83. Payment of these distributions was possible only because $266,387.48 in investor funds were deposited into this account from the investor trust account. As a result, at least $31,307.87 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 129

Sources and Uses of Funds		
May 11, 2009 to May 29, 2009		
Ending Bank Balance on 5/8/09		**126,703.25**
	Accounts receivable deposits during analysis period	1,385.97
	Other non-investor deposits during analysis period	2,503.75
Total Funds Available from Sources Other than Investors		**130,592.96**
	Transfer from investor trust account (#3907)	266,387.48
Total Funds Available		**396,980.44**
	Investor distributions	161,900.83
	Investor interest payments that were reinvested	206,508.25
	Operational expenses	13,100.00
Ending Bank Balance on 5/29/09		**15,471.36**

f. June 1, 2009 (Investor Distribution Account): Between June 1, 2009 and June 30, 2009, the investor distribution account at Wells Fargo had a maximum of $16,616.55 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $755,702.15. Payment of these distributions was possible only because $972,259.50 in investor funds were deposited into this account from the investor trust account. As a result, at least $739,085.60 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 130

Sources and Uses of Funds		
June 1, 2009 to June 30, 2009		
Ending Bank Balance on 5/29/09		**15,471.36**
	Accounts receivable deposits during analysis period	145.19
	Other non-investor deposits during analysis period	1,000.00
Total Funds Available from Sources Other than Investors		**16,616.55**
	Transfer from investor trust account (#3907)	972,259.50
Total Funds Available		**988,876.05**
	Investor distributions	755,702.15
	Investor interest payments that were reinvested	208,459.65
	Operational expenses	9,706.54
Ending Bank Balance on 6/30/09		**15,007.71**

g. July 1, 2009 (Investor Distribution Account): Between July 1, 2009 and July 27, 2009, the investor distribution account at Wells Fargo had a maximum of $16,393.68 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $645,953.68. Payment of these distributions was possible only because $915,027.53 in investor funds were deposited into this account from the investor trust account. As a result, at least $629,560.00 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 131

Sources and Uses of Funds		
July 1, 2009 to July 27, 2009		
Ending Bank Balance on 6/30/09		**15,007.71**
	Accounts receivable deposits during analysis period	1,385.97
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**16,393.68**
	Transfer from investor trust account (#3907)	915,027.53
	New Investor Funds	3,500.00
Total Funds Available		**934,921.21**
	Investor distributions	645,953.68
	Investor interest payments that were reinvested	280,505.86
	Operational expenses	716.61
Ending Bank Balance on 7/27/09		**7,745.06**

h. July 29, 2009 (Investor Distribution Account): Between July 29, 2009 and August 31, 2009, the investor distribution account at Wells Fargo had a maximum of $79,235.04 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $715,117.41. Payment of these distributions was possible only because $871,778.71 in investor funds were deposited into this account from the investor trust account. As a result, at least $635,882.37 was paid to investors that could have come only from new investor funds. This is demonstrated in the table below:

Graphic No. 132

Sources and Uses of Funds		
July 29, 2009 to August 31, 2009		
Ending Bank Balance on 7/28/09		**7,745.06**
	Accounts receivable deposits during analysis period	145.19
	Other non-investor deposits during analysis period	71,344.79
Total Funds Available from Sources Other than Investors		**79,235.04**
	Transfer from investor trust account (#3907)	871,778.71
Total Funds Available		**951,013.75**
	Investor distributions	715,117.41
	Investor interest payments that were reinvested	226,845.65
	Operational expenses	161.96
Ending Bank Balance on 8/31/09		**8,888.73**

i. August 10, 2009 (Investor Trust Account): Between August 10, 2009 and September 23, 2009, the investor trust account at Chase Bank had a maximum $601,169.60 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $761,856.33. Payment of these distributions was possible only because $1,539,856.01 in investor funds were deposited into this account. As a result, at least

$160,686.73 was paid to investors that could have come only from new investors.[194] This is illustrated in the table below:

Graphic No. 133

Sources and Uses of Funds		
August 10, 2009 to September 23, 2009		
Ending Bank Balance on 8/7/09		**273,750.61**
	Reinvested interest during analysis period	0.00
	Deposits from non-investors during analysis period	327,418.99
Total Funds Available from Sources Other than Investors		**601,169.60**
	Deposits from new investors	1,539,856.01
Total Funds Available		**2,141,025.61**
	Investor distributions	761,856.33
	Transfers to affiliates	1,291,975.68
	General transactions	14,497.69
Ending Bank Balance on 9/23/09		**72,695.91**

j. September 16, 2009 (Investor Distribution Account): Between September 16, 2009 and October 30, 2009, the investor distribution account at Wells Fargo had no monies available from non-investor sources. The bank account balance was $287.55 on September 15, 2009. During this time period, N. Note paid distributions to investors totaling $701,165.66. Payment of these distributions was possible only because $736,094.68 in investor funds were deposited into this account from the investor trust account. As a result, $700,878.11 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 134

Sources and Uses of Funds		
September 16, 2009 to October 30, 2009		
Ending Bank Balance on 9/15/09		**287.55**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**287.55**

194 Details of the 2009 examples of traced fund flows are in Tab 41.

	Transfer from investor trust account (#3907)	736,094.68
Total Funds Available		**734,807.13**
	Investor distributions	701,165.66
	Investor interest payments that were reinvested	6,726.23
	Operational expenses	369.18
Ending Bank Balance on 10/30/09		**26,546.06**

k. November 2, 2009 (Investor Distribution Account): Between November 2, 2009 and November 30, 2009, the investor distribution account at Wells Fargo had a maximum of $60,296.00 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $652,709.45. Payment of these distributions was possible only because $671,330.13 in investor funds were deposited into this account from the investor trust account. As a result, at least $592,413.45 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 135

Sources and Uses of Funds		
November 2, 2009 to November 30, 2009		
Ending Bank Balance on 10/31/09		**26,546.06**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period[195]	33,749.94
Total Funds Available from Sources Other than Investors		**60,296.00**
	Transfer from investor trust account (#3907)	671,330.13
Total Funds Available		**731,626.13**
	Investor distributions	652,709.45
	Investor interest payments that were reinvested	3,727.69
	Operational expenses	791.86
Ending Bank Balance on 11/30/09		**74,397.13**

l. December 1, 2009 (Investor Distribution Account): Between December 1, 2009 and December 31, 2009, the investor distribution account at Wells Fargo had a maximum of $74,397.13 in deposits from sources other than new investors. During this time period, N.

[195] This deposit was the result of a property sale during this period.

Note paid distributions to investors totaling $747,980.49. Payment of these distributions was possible only because $1,631,141.02 in investor funds were deposited into this account from the investor trust account. As a result, at least $673,583.36 was paid to investors that could have come only from investor funds. This is illustrated in the table below:

Graphic No. 136

Sources and Uses of Funds		
December 1, 2009 to December 31, 2009		
Ending Bank Balance on 11/30/09		**74,397.13**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**74,397.13**
	Transfer from investor trust account (#3907)	1,631,141.02
Total Funds Available		**1,705,538.15**
	Investor distributions	747,980.49
	Investor interest payments that were reinvested	200,923.02
	Operational expenses	157.30
Ending Bank Balance on 12/31/09		**736,477.34**

4. Traced Fund Flows: 2010

a. January 1, 2010 (Investor Distribution Account): Between January 1, 2010 and January 29, 2010, the investor distribution account at Wells Fargo had no monies available from non-investor sources.[196] During this time period, N. Note paid distributions to investors totaling $705,824.12. Payment of these distributions was possible only from the $895,000.00 deposited from the investor trust account on December 31, 2009 or the additional $707,000.00 in investor funds deposited into this account during this analysis. As a result,

[196] This bank account had a number of large transactions on the last day of 2009. The account started December 31, 2009 with a balance of $62,167.67. On that day, $895,000.00 was deposited into the account from #3907 (the investor trust account). This $895,000.00 consisted of investor funds. The same day, $220,690.33 was paid out of this investor distribution account, leaving a balance of $736,477.34. Since the $220,690.33 that was paid out was greater than the prior balance, this expenditure depleted the prior balance and consumed part of the investor funds from #3907. As a result, the only money in the account on January 1, 2010 had come from investors.

$705,824.12 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 137

Sources and Uses of Funds		
January 1, 2010 to January 29, 2010		
Beginning Bank Balance on 1/1/10 (excluding transfer from #3907 on December 31, 2009)		**0.00**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**0.00**
	Additional transfer from investor trust account (#3907)	707,000.00
Total Funds Available		**1,443,477.34**
	Investor distributions	705,824.12
	Investor interest payments that were reinvested	699,208.64
	Operational expenses	151.51
Ending Bank Balance on 1/29/10[197]		**38,293.07**

b. January 11, 2010 (Investor Trust Account): Between January 11, 2010 and January 28, 2010, the investor trust account at Chase Bank had a maximum of $106,933.19 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $329,766.58. Payment of these distributions was possible only because $442,874.50 in investor funds were deposited into this account. As a result, at least $222,833.39 was paid to investors that could have come only from new investor funds.[198] This is illustrated in the table below:

Graphic No. 138

Sources and Uses of Funds		
January 11, 2010 to January 28, 2010		
Ending Bank Balance on 1/8/10		**71,081.02**
	Accounts receivable payments during analysis period	345.19
	Deposits from non-investors during analysis period	35,506.98

[197] The numbers in the first four lines of this table do not add up to the Total Funds Available because the beginning bank balance consisted of funds that had come from investors.
[198] Details of the 2010 examples of traced fund flows are in Tab 42.

Total Funds Available from Sources Other than Investors		**106,933.19**
	Deposits from new investors	442,874.50
Total Funds Available		**549,807.69**
	Investor distributions	329,766.58
	Transfers to affiliates	8,700.00
	Transfers to #5954 to pay investors from other account[199]	77,000.00
Ending Bank Balance on 1/28/2010		**134,341.11**

c. February 1, 2010 (Investor Distribution Account): Between February 1, 2010 and February 26, 2010, the investor distribution account at Wells Fargo had a maximum of $38,293.07 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $685,001.87. Payment of these distributions was possible only because $1,173,762.98 in investor funds were deposited into this account. As a result, at least $646,708.80 was paid to investors that could have come only from new investor funds. . This is illustrated in the table below:

Graphic No. 139

Sources and Uses of Funds		
February 1, 2010 to February 26, 2010		
Ending Bank Balance on 1/31/10		**38,293.07**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**38,293.07**
	Transfer from investor trust account (#3907)	1,173,762.98
Total Funds Available		**1,212,056.05**
	Investor distributions	685,001.87
	Investor interest payments that were reinvested	487,039.02
	Operational expenses	692.89
Ending Bank Balance on 2/26/10		**39,322.27**

d. March 1, 2010 (Investor Distribution Account): Between March 1, 2010 and March 30, 2010, the investor distribution account at Wells Fargo had a maximum of

[199] In addition to the $329,766.58 paid out to investors directly from the #3907 account, an additional $77,000.00 was transferred from the #3907 account to the #5954 account, where it was used to pay distributions from the #5954 account. Distributions from the #5954 account during this time period is discussed in a later example.

$39,322.27 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $782,168.33. Payment of these distributions was possible only because $1,041,391.33 in investor funds were deposited into this account from the investor trust account. As a result, at least $742,846.06 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 140

Sources and Uses of Funds		
March 1, 2010 to March 30, 2010		
Ending Bank Balance on 2/28/10		**39,322.27**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**39,322.27**
	Transfer from investor trust account (#3907)	1,041,391.33
Total Funds Available		**1,080,713.60**
	Investor distributions	782,168.33
	Investor interest payments that were reinvested	244,636.29
	Operational expenses	860.51
Ending Bank Balance on 3/30/10		**53,048.47**

e. March 30, 2010 (Investor Trust Account): Between March 30, 2010 and April 27, 2010, the investor trust account at Chase Bank had a maximum of $529,142.11 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $559,501.20. Payment of these distributions was possible only because $1,204,868.35 in investor funds were deposited into this account. As a result, at least $30,359.09 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 141

Sources and Uses of Funds		
March 30, 2010 to April 27, 2010		
Ending Bank Balance on 3/29/13		**474,318.28**
	Accounts receivable payments during analysis period	397.69
	Deposits from non-investors during analysis period	54,426.14
Total Funds Available from Sources Other than Investors		**529,142.11**
	Deposits from new investors	1,204,868.35
Total Funds Available		**1,734,010.46**
	Investor distributions	559,501.20
	Transfers to affiliates	882,020.00
	General transactions	63,775/31
Ending Bank Balance on 4/27/10		**228,713.95**

f. April 1, 2010 (Investor Distribution Account): Between April 1, 2010 and April 30, 2010, the investor distribution account at Wells Fargo had a maximum of $53,048.47 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $719,997.85. Payment of these distributions was possible only because $1,023,590.36 in investor funds were deposited into this account from the investor trust account. As a result, at least $666,949.38 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 142

Sources and Uses of Funds		
April 1, 2010 to April 30, 2010		
Ending Bank Balance on 3/31/10		**53,048.47**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**53,048.47**
	Transfer from investor trust account (#3907)	1,023,590.36
Total Funds Available		**1,076,638.83**
	Investor distributions	719,997.85
	Investor interest payments that were reinvested	265,742.37
	Operational expenses	172.37
Ending Bank Balance on 4/30/10		**90,726.24**

g. April 29, 2010 (Investor Trust Account): Between April 29, 2010 and June 25, 2010, the investor trust account at Chase Bank had a maximum of $797,946.46 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $1,111,515.79. Payment of these distributions was possible only because $3,454,212.50 in investor funds were deposited into this account. As a result, at least $313,569.33 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 143

Sources and Uses of Funds		
April 29, 2010 to June 25, 2010		
Ending Bank Balance on 4/28/10		**228,713.95**
	Reinvested interest during analysis period	534,243.55
	Deposits from non-investors during analysis period	34,988.96
Total Funds Available from Sources Other than Investors		**797,946.46**
	Deposits from new investors	3,454,212.50
Total Funds Available		**4,252,158.96**
	Investor distributions	1,111,515.79
	Transfers to affiliates and related bank accounts	2,438,767.18
	General transactions	181,952.46
Ending Bank Balance on 6/25/10		**519,923.53**

h. May 1, 2010 (Investor Distribution Account): Between May 1, 2010 and May 28, 2010, the investor distribution account at Wells Fargo had a maximum of $90,726.24 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $705,771.28. Payment of these distributions was possible only because $978,552.32 in investor funds were deposited into this account from the investor trust account. As a result, at least $615,045.04 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 144

Sources and Uses of Funds		
May 1, 2010 to May 28, 2010		
Ending Bank Balance on 4/30/10		**90,726.24**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**90,726.24**
	Transfer from investor trust account (#3907)	978,552.32
Total Funds Available		**1,069,278.56**
	Investor distributions	705,771.28
	Investor interest payments that were reinvested	268,248.68
	Operational expenses and transfers to other affiliates	1,398.72
Ending Bank Balance on 5/28/10		**93,859.88**

i. June 1, 2010 (Investor Distribution Account): Between June 1, 2010 and June 30, 2010, the investor distribution account at Wells Fargo had a maximum of $183,859.88 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $805,486.07. Payment of these distributions was possible only because $962,000.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $621,626.19 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 145

Sources and Uses of Funds		
June 1, 2010 to June 30, 2010		
Ending Bank Balance on 5/31/10		**93,858.88**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	90,000.00
Total Funds Available from Sources Other than Investors		**183,859.88**
	Transfer from investor trust account (#3907)	962,000.00
Total Funds Available		**1,145,859.88**
	Investor distributions	805,486.07
	Investor interest payments that were reinvested	266,332.13
	Operational expenses	276.71
Ending Bank Balance on 6/30/10		**73,764.97**

j. July 1, 2010 (Investor Distribution Account): Between July 1, 2010 and July 30, 2010, the investor distribution account at Wells Fargo had a maximum of $150,082.14 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $701,758.61. Payment of these distributions was possible only because $573,000.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $551,676.47 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 146

Sources and Uses of Funds		
July 1, 2010 to July 30, 2010		
Ending Bank Balance on 6/30/10		**73,764.97**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	76,317.17
Total Funds Available from Sources Other than Investors		**150,082.14**
	Transfer from investor trust account (#3907)	573,000.00
Total Funds Available		**723,082.14**
	Investor distributions	701,758.61
	Investor interest payments that were reinvested[200]	0.00
	Operational expenses and transfers to other affiliates	159.32
Ending Bank Balance on 7/30/10		**21,164.21**

k. August 1, 2010 (Investor Distribution Account): Between August 1, 2010 and August 31, 2010, N. Note had a maximum of $491,164.21 in funds available from non-investor sources. Despite this, N. Note paid $769,859.68 to investors out of this bank account. These investor payments could be made only because $956,500.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $278,695.47 of the investor trust account monies were needed in order to cover the investor distributions that were paid. This is demonstrated in the table below:

[200] At this point in time, N. Note did not have sufficient funds to fund the interest reinvestment payments for the month.

Graphic No. 147

Sources and Uses of Funds		
August 1, 2010 to August 31, 2010		
Ending Bank Balance on 7/31/10		**21,164.21**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	470,000.00
Total Funds Available from Sources Other than Investors		**491,164.21**
	Transfer from investor trust account (#3907)	956,500.00
Total Funds Available		**1,447,664.21**
	Investor distributions	769,859.68
	Investor interest payments that were reinvested	553,320.00
	Operational expenses	124.02
Ending Bank Balance on 8/31/10		**124,360.51**

l. September 1, 2010 (Investor Distribution Account): Between September 1, 2010 and September 29, 2010, the investor distribution account at Wells Fargo had a maximum of $194,360.51 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investor totaling $769,286.41. Payment of these distributions was possible only because $679,275.62 in investor funds were deposited into this account from the investor trust account. As a result, at least $574,925.90 was paid to investors that could have come only from new investor funds. This is demonstrated in the table below:

Graphic No. 148

Sources and Uses of Funds		
September 1, 2010 to September 29, 2010		
Ending Bank Balance on 8/31/10		**124,360.51**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	70,000.00
Total Funds Available from Sources Other than Investors		**194,360.51**
	Transfer from investor trust account (#3907)	679,275.62
Total Funds Available		**873,636.13**
	Investor distributions	769,286.41
	Investor interest payments that were reinvested[201]	0.00
	Operational expenses and transfers to other affiliates	725.77
Ending Bank Balance on 9/29/10		**103,623.95**

[201] Again during this month, N. Note paid no reinvested interest payments.

m. September 8, 2010 (Investor Trust Account): Between September 8, 2010 and September 27, 2010, the investor trust account at Chase Bank had a maximum of $60,751.83 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $150,050.00. Payment of these distributions was possible only because $421,281.14 in investor funds were deposited into this account. As a result, at least $89,298.17 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 149

Sources and Uses of Funds		
September 8, 2010 to September 27, 2010		
Ending Bank Balance on 9/7/10		**60,511.83**
	Reinvested interest during analysis period	0.00
	Deposits from non-investors during analysis period	240.00
Total Funds Available from Sources Other than Investors		**60,751.83**
	Deposits from new investors	421,281.14
Total Funds Available		**482,032.97**
	Investor distributions	150,050.00
	Transfers to affiliates and related bank accounts	156,674.16
	General transactions	145,457.45
Ending Bank Balance on 9/27/10		**29,851.36**

n. October 1, 2010 (Investor Distribution Account): Between October 1, 2010 and October 29, 2010, the investor distribution account at Wells Fargo had a maximum of $103,823.95 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $836,747.15. Payment of these distributions was possible only because $819,695.90 in investor funds were deposited into this account from the investor trust account. As a result, at least $732,923.20 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 150

Sources and Uses of Funds		
October 1, 2010 to October 29, 2010		
Ending Bank Balance on 9/30/10		**103,623.95**
	Accounts receivable deposits during analysis period	200.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**103,823.95**
	Transfer from investor trust account (#3907)	819,695.90
Total Funds Available		**923,519.85**
	Investor distributions	836,747.15
	Investor interest payments that were reinvested[202]	0.00
	Operational expenses and transfers to other affiliates	636.47
Ending Bank Balance on 10/29/10		**86,136.03**

o. November 1, 2010 (Investor Distribution Account): Between November 1, 2010 and November 30, 2010, the investor distribution account at Wells Fargo had a maximum of $140,536.03 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $850,163.62. Payment of these distributions was possible only because $792,000.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $709,627.59 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 151

Sources and Uses of Funds		
November 1, 2010 to November 30, 2010		
Ending Bank Balance on 10/31/10		**86,136.03**
	Accounts receivable deposits during analysis period	200.00
	Other non-investor deposits during analysis period	54,200.00
Total Funds Available from Sources Other than Investors		**140,536.03**
	Transfer from investor trust account (#3907)	792,000.00
Total Funds Available		**932,536.03**
	Investor distributions	850,163.62
	Investor interest payments that were reinvested[203]	0.00
	Operational expenses and transfers to other affiliates	728.76
Ending Bank Balance on 11/30/10		**81,643.65**

[202] No reinvested interest payments were paid this month.
[203] No reinvested interest payments were paid again this month.

p. <u>November 18, 2010 (Investor Trust Account)</u>: Between November 18, 2010 and November 30, 2010, the investor trust account at Chase Bank had a maximum of $39,388.11 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $50,000.00. Payment of these distributions was possible only because $549,000.00 in investor funds were deposited into this account. As a result, at least $10,611.89 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

<u>Graphic No. 152</u>

Sources and Uses of Funds	
November 18, 2010 to November 30, 2010	
Ending Bank Balance on 11/17/10	**24,380.16**
Reinvested interest during analysis period	0.00
Deposits from non-investors during analysis period	15,007.95
Total Funds Available from Sources Other than Investors	**39,388.11**
Deposits from new investors	549,000.00
Total Funds Available	**588,388.11**
Investor distributions	50,000.00
Transfers to affiliates and related bank accounts	407,850.00
General transactions	58,607.17
Ending Bank Balance on 11/30/10	**71,930.94**

q. <u>December 1, 2010 (Investor Distribution Account)</u>: Between December 1, 2010 and December 31, 2010, the investor distribution account at Wells Fargo had a maximum of $81,988.84 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $1,038,522.34. Payment of these distributions was possible only because $2,152,419.79 in investor funds were deposited into this account from the investor trust account. As a result, at least $956,533.50 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 153

Sources and Uses of Funds		
December 1, 2010 to December 31, 2010		
Ending Bank Balance on 11/30/10		**81,643.65**
	Accounts receivable deposits during analysis period	345.19
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**81,988.84**
	Transfer from investor trust account (#3907)[204]	2,152,419.79
Total Funds Available		**2,234,408.63**
	Investor distributions	1,038,522.34
	Investor interest payments that were reinvested	1,118,585.56
	Operational expenses and transfers to other affiliates	652.72
Ending Bank Balance on 12/31/10		**76,648.01**

5. Traced Fund Flows: 2011

a. January 1, 2011 (Investor Distribution Account): Between January 1, 2011 and January 31, 2011, the investor distribution account at Wells Fargo had a maximum of $76,648.01 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $762,474.14. Payment of these distributions was possible only because $832,235.61 in investor funds were deposited into this account from the investor trust account. As a result, at least $685,826.13 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:[205]

Graphic No. 154

Sources and Uses of Funds		
January 1, 2011 to January 31, 2011		
Ending Bank Balance on 12/31/10		**76,648.01**
	Transfers from Affiliates	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**76,648.01**
	Transfer from investor trust account (#3907)	831,200.00

[204] The large size of this transfer was made possible because of the $2.1 million that N. Note received from the Net Participation Interest investments related to Homeland Minerals. See the discussion of the financial condition of Homeland Minerals in Appendix A.
[205] Tables showing this information, with some additional detail, are found at Tab 43.

Total Funds Available		**907,848.01**
	Investor distributions	762,474.14
	Investor interest payments that were reinvested	0.00
	Operational expenses and transfers to other affiliates	364.69
Ending Bank Balance on 1/31/11		**145,009.18**

b. February 1, 2011 (Investor Distribution Account): Between February 1, 2011 and February 21, 2011, the investor distribution account at Wells Fargo had a maximum of $145,009.18 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $840,705.41. Payment of these distributions was possible only because $279,254.77 in investor funds were deposited into this account from the investor trust account. As a result, at least $695,696.23 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 155

Sources and Uses of Funds		
February 1, 2011 to February 21, 2011		
Ending Bank Balance on 1/3/11		**145,009.18**
	Transfers from Affiliates	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**145,009.18**
	Transfer from investor trust account (#3907)	785,854.77
Total Funds Available		**930,863.95**
	Investor distributions	840,705.41
	Investor interest payments that were reinvested	0.00
	Operational expenses and transfers to other affiliates	116.48
Ending Bank Balance on 2/21/11		**90,042.06**

c. March 1, 2011 (Investor Distribution Account): Between March 1, 2011 and March 31, 2011, the investor distribution account at Wells Fargo had a maximum of $415,142.06 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $963,640.42. Payment of these distributions was possible only because $1,514,600.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $548,498.36 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 156

Sources and Uses of Funds		
March 1, 2011 to March 31, 2011		
Ending Bank Balance on 2/28/11		**90,042.06**
	Transfers from Affiliates	325,100.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**415,142.06**
	Transfer from investor trust account (#3907)	1,514,600.00
Total Funds Available		**1,929,742.06**
	Investor distributions	963,640.42
	Investor interest payments that were reinvested	839,577.39
	Operational expenses and transfers to other affiliates	12,099.64
Ending Bank Balance on 3/31/11		**114,424.61**

d. April 1, 2011 (Investor Distribution Account): Between April 1, 2011 and April 30, 2011, the investor distribution account at Wells Fargo had a maximum of $114,424.61 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $854,411.04. Payment of these distributions was possible only because $1,154,000.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $739,986.43 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 157

Sources and Uses of Funds		
April 1, 2011 to April 30, 2011		
Ending Bank Balance on 3/31/11		**114,424.61**
	Transfers from Affiliates	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**114,424.61**
	Transfer from investor trust account (#3907)	1,154,000.00
Total Funds Available		**1,268,424.61**
	Investor distributions	854,411.04

	Investor interest payments that were reinvested	281,703.05
	Operational expenses and transfers to other affiliates	435.75
Ending Bank Balance on 4/30/11		**131,874.77**

e. May 1, 2011 (Investor Distribution Account): Between May 1, 2011 and May 30, 2011, the investor distribution account at Wells Fargo had a maximum of $131,874.77 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $871,570.47. Payment of these distributions was possible only because $889,000.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $739,695.70 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 158

Sources and Uses of Funds		
May 1, 2011 to May 31, 2011		
Ending Bank Balance on 4/30/11		**131,874.77**
	Transfers from Affiliates	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**131,874.77**
	Transfer from investor trust account (#3907)	889,000.00
Total Funds Available		**1,020,874.77**
	Investor distributions	871,570.47
	Investor interest payments that were reinvested	11,964.96
	Operational expenses and transfers to other affiliates	2,748.55
Ending Bank Balance on 5/31/11		**134,590.79**

f. June 1, 2011 (Investor Distribution Account): Between June 1, 2011 and June 30, 2011, the investor distribution account at Wells Fargo had a maximum of $234,590.79 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $877,012.83. Payment of these distributions was possible only because $751,650.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $642,422.04 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 159

Sources and Uses of Funds		
June 1, 2011 to June 30, 2011		
Ending Bank Balance on 5/31/11		**134,590.79**
	Transfers from Affiliates	100,000.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**234,590.79**
	Transfer from investor trust account (#3907)	751,650.00
Total Funds Available		**986,240.79**
	Investor distributions	877,012.83
	Investor interest payments that were reinvested	0.00
	Operational expenses and transfers to other affiliates	193.05
Ending Bank Balance on 6/30/11		**109,034.91**

g. July 1, 2011 (Investor Distribution Account): Between July 1, 2011 and July 31, 2011, the investor distribution account at Wells Fargo had a maximum of $179,180.10 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $753,829.10. Payment of these distributions was possible only because $586,934.05 in investor funds were deposited into this account from the investor trust account. As a result, at least $574,649.00 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 160

Sources and Uses of Funds		
July 1, 2011 to July 31, 2011		
Ending Bank Balance on 6/30/11		**109,034.91**
	Transfers from Affiliates	70,000.00
	Other non-investor deposits during analysis period	145.19
Total Funds Available from Sources Other than Investors		**179,180.10**
	Transfer from investor trust account (#3907)	586,934.05
Total Funds Available		**766,114.15**
	Investor distributions	753,829.10

	Investor interest payments that were reinvested	0.00
	Operational expenses and transfers to other affiliates	1,594.57
Ending Bank Balance on 7/31/11		**10,690.48**

h. August 1, 2011 (Investor Distribution Account): Between August 1, 2011 and August 31, 2011, the investor distribution account at Wells Fargo had a maximum of $60,690.48 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $799,246.84. Payment of these distributions was possible only because $729,000.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $738,556.36 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 161

Sources and Uses of Funds		
August 1, 2011 to August 31, 2011		
Ending Bank Balance on 7/31/13		**10,690.48**
	Transfers from Affiliates	50,000.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**60,690.48**
	Transfer from investor trust account (#3907)	729,000.00
Total Funds Available		**789,690.48**
	Investor distributions	799,246.84
	Investor interest payments that were reinvested	0.00
	Operational expenses and transfers to other affiliates	1,474.06
Ending Bank Balance on 8/31/11		**(11,030.42)**

i. September 1, 2011 (Investor Distribution Account): Between September 1, 2011 and September 30, 2011, the investor distribution account at Wells Fargo had a maximum of $3,969.58 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $174,587.65. Payment of these distributions was possible only because $222,200.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $170,618.07 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 162

Sources and Uses of Funds		
September 1, 2011 to September 30, 2011		
Ending Bank Balance on 8/31/11		**(11,030.42)**
	Transfers from Affiliates	15,000.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**3,969.58**
	Transfer from investor trust account (#3907)	222,200.00
Total Funds Available		**226,169.58**
	Investor distributions	174,587.65
	Investor interest payments that were reinvested	0.00
	Operational expenses and transfers to other affiliates	571.16
Ending Bank Balance on 9/30/11		**51,010.77**

j. October 1, 2011 (Investor Distribution Account): Between October 1, 2011 and October 31, 2011, the investor distribution account at Wells Fargo had a maximum of $51,010.77 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $684,108.49. Payment of these distributions was possible only because $842,000.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $633,097.72 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 163

Sources and Uses of Funds		
October 1, 2011 to October 31, 2011		
Ending Bank Balance on 9/30/11		**51,010.77**
	Transfers from Affiliates	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**51,010.77**
	Transfer from investor trust account (#3907)	842,000.00
Total Funds Available		**893,010.77**
	Investor distributions	684,108.49

	Investor interest payments that were reinvested	0.00
	Operational expenses and transfers to other affiliates	668.86
Ending Bank Balance on 10/31/11		**208,233.42**

k. October 1, 2011 (Investor Trust Account): Between October 1, 2011 and October 31, 2011, the investor trust account at Chase Bank had a maximum of $18,266.22 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $297,233.07. Payment of these distributions was possible only because $1,569,664.00 in investor funds were deposited into this account. As a result, at least $278,966.85 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 164

Sources and Uses of Funds		
October 1, 2011 to October 31, 2011		
Ending Bank Balance on 9/30/11		**18,266.22**
	Transfers from affiliates	0.00
	Deposits from non-investors during analysis period	0.00
Total Funds Available from Sources Other than Investors		**18,266.22**
	Deposits from new investors[206]	1,569,664.00
Total Funds Available		**1,587,930.22**
	Investor distributions	297,233.07
	Transfers to affiliates	1,010,777.09
	General transactions	42,803.02
Ending Bank Balance on 10/31/11		**237,117.04**

l. November 1, 2011 (Investor Distribution Account): Between November 1, 2011 and November 30, 2011, the investor distribution account at Wells Fargo had a maximum of $208,233.42 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $340,688.30. Payment of these

[206] The $1.5 million in deposits from new investors during October 2011 came from eight investors. These new investor funds all appear to have been accepted by N. Note after N. Note had stopped making interest payments to investors.

distributions was possible only because $2,205,500.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $132,454.88 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 165

Sources and Uses of Funds		
November 1, 2011 to November 30, 2011		
Ending Bank Balance on 10/31/11		**208,233.42**
	Transfers from Affiliates	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**208,233.42**
	Transfer from investor trust account (#3907)	2,205,500.00
Total Funds Available		**2,413,733.42**
	Investor distributions	340,688.30
	Investor interest payments that were reinvested	2,063,359.02
	Operational expenses and transfers to other affiliates	1,209.11
Ending Bank Balance on 11/30/11		**8,476.99**

m. December 1, 2011 (Investor Distribution Account): Between December 1, 2011 and December 31, 2011, the investor distribution account at Wells Fargo had a maximum of $23,226.99 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $128,913.77. Payment of these distributions was possible only because $500,500.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $105,686.78 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 166

Sources and Uses of Funds		
December 1, 2011 to December 31, 2011		
Ending Bank Balance on 11/30/11		**8,476.99**
	Transfers from Affiliates	10,000.00
	Other non-investor deposits during analysis period	4,750.00
Total Funds Available from Sources Other than Investors		**23,226.99**
	Transfer from investor trust account (#3907)	500,500.00

Total Funds Available		**523,726.99**
	Investor distributions	128,913.77
	Investor interest payments that were reinvested	309,791.96
	Operational expenses and transfers to other affiliates	581.65
Ending Bank Balance on 12/31/11		**84,439.61**

6. Traced Fund Flows: 2012

a. February 7, 2012 (Investor Distribution Account): Between February 7, 2012 and February 16, 2012, the investor distribution account at Wells Fargo had a maximum of $9,107.88 in deposits from sources other than new investors. During this time period, N. Note paid distributions to investors totaling $31,928.43. Payment of these distributions was possible only because $242,400.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $22,820.63 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:[207]

Graphic No. 167

Sources and Uses of Funds		
February 7, 2012 to February 16, 2012		
Ending Bank Balance on 2/6/12		**9,107.80**
	Accounts receivable deposits during analysis period	0.00
	Other non-investor deposits during analysis period	0.00
Total Funds Available from Sources Other than Investors		**9,107.80**
	Transfer from investor trust account (#3907)	242,400.00
Total Funds Available		**251,507.88**
	Investor distributions	31,928.43
	Investor interest payments that were reinvested	199,245.43
	Operational expenses and transfers to other affiliates	0.00
Ending Bank Balance on 2/16/12		**22,820.63**

b. February 17, 2012 (Investor Distribution Account): Between February 17, 2012 and February 28, 2012, the investor distribution account at Wells Fargo had a maximum of $26,842.94 in deposits from sources other than new investors. During this time period, N. Note

[207] Tables showing this information, with some additional detail, are found at Tab 44.

paid distributions to investors totaling $55,053.09. Payment of these distributions was possible only because $259,650.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $28,209.15 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 168

Sources and Uses of Funds		
February 17, 2012 to February 28, 2012		
Ending Bank Balance on 2/16/12		**20,333.94**
	Transfers from Affiliates	3,810.00
	Other non-investor deposits during analysis period	2,700.00
Total Funds Available from Sources Other than Investors		**26,843.94**
	Transfer from investor trust account (#3907)	259,650.00
Total Funds Available		**286,493.94**
	Investor distributions	55,053.09
	Investor interest payments that were reinvested	207,994.84
	Operational expenses and transfers to other affiliates	6,511.69
Ending Bank Balance on 2/28/12		**16,934.32**

c. May 1, 2012 (Investor Distribution Account): Between May 1, 2012 and May 29, 2012, the investor distribution account at Wells Fargo had no funds available from sources other than new investors. During this time, N. Note paid distributions to investors totaling $13,973.61. Payment of these distributions was possible only because $20,500.00 in investor funds were deposited into this account from the investor trust account. As a result, at least $13,973.61 was paid to investors that could have come only from new investor funds. This is illustrated in the table below:

Graphic No. 169

Sources and Uses of Funds		
May 1, 2012 to May 29, 2012		
Ending Bank Balance on 4/30/12		**(10,251.52)**
	Transfers from affiliates	2,200.00
	Other non-investor deposits during analysis period	6,485.00

Total Funds Available from Sources Other than Investors		(1,566.52)
	Transfer from investor trust account (#3907)	20,500.00
Total Funds Available		**18,933.48**
	Investor distributions	13,973.61
	Investor interest payments that were reinvested	0.00
	Operational expenses and transfers to other affiliates	2,520.77
Ending Bank Balance on 5/29/12		**2,439.02**

An examination of these specific examples of fund flows show that during these particular time periods, N. Note made investor distributions totaling $35,286,970.86 . However, the bank accounts from which these payments were made had only $10,618,819.43 in funds that derived from sources other than investors. As a result, these investor distributions could have been paid only by N. Note using new funds taken from investors to supplement existing funds. During these particular time periods, at least $24,680,151.01 of new investor funds were used to fund distributions to other investors.

D. Summary of Traced Fund Flows from 2007 to 2012

The table below summarizes the amount of distributions paid to investors between January 2007 and June 2012 which could have been paid only from new investor funds.

Graphic No. 170

SUMMARY OF INTEREST PAYMENTS PAID FROM FUNDS OF OTHER INVESTORS					
January 1, 2007 to June 25, 2012					
Analysis Period					
Start Date	End Date	Account #	Investor Distributions Paid	Funds Available from Non-Investors	Distributions Whose Source Could Only Have Been Other Investors
2007					
2/20/07	3/12/07	3907	732,137.09	210,198.32	521,938.77
6/29/07	7/17/07	5954	250,338.76	37,309.65	213,029.11
7/27/07	8/14/07	5954	394,216.81	176,755.64	217,461.17
8/28/07	9/12/07	5954	298,636.73	136,978.65	161,658.08
2008					

12/26/07	2/28/08	3907	2,427,381.54	1,214,749.19	1,212,632.35
3/3/08	4/30/08	3907	2,104,410.38	1,553,315.05	551,095.33
10/1/08	10/30/08	5954	587,769.92	347,846.80	239,923.12
10/31/08	11/30/08	5954	565,854.34	362,650.48	203,203.86
12/1/08	12/30/08	5954	617,444.92	169,892.39	447,552.53
2009					
1/12/09	1/27/09	5954	178,922.11	114,281.06	64,641.05
2/3/09	2/27/09	5954	695,459.53	222,170.92	473,288.61
3/3/09	3/31/09	5954	641,967.29	232,029.17	409,938.12
4/1/09	5/1/09	5954	641,247.88	62,067.99	579,179.89
5/11/09	5/29/09	5954	161,900.83	130,592.96	31,307.87
6/1/09	6/30/09	5954	755,702.15	16,616.05	739,085.60
7/1/09	7/27/09	5954	645,953.68	16,393.68	629,560.00
7/29/09	8/31/09	5954	715,117.41	79,235.04	635,882.37
8/7/09	9/23/09	3907	761,856.33	601,169.60	160,686.73
9/16/09	10/30/09	5954	701,165.66	287.55	700,878.11
11/2/09	11/30/09	5954	652,709.45	60,296.00	592,413.45
12/1/09	12/31/09	5954	747,980.49	74,397.13	673,583.36
2010					
1/1/10	1/29/10	5954	705,824.12	0.00	705,824.12
1/11/10	1/28/10	3907	329,766.58	106,933.19	222,833.39
2/1/10	2/26/10	5954	685,001.87	38,293.07	646,708.80
3/1/10	3/30/10	5954	782,168.33	39,322.27	742,846.06
3/30/10	4/27/10	3907	559,501.20	529,142.11	30,359.09
4/1/10	4/30/10	5954	719,997.85	53,048.47	666,949.38
4/29/10	6/25/10	3907	1,111,515.79	797,946.46	313,569.33
5/1/10	5/28/10	5954	705,771.28	90,726.24	615,045.04
6/1/10	6/30/10	5954	805,486.07	183,859.88	621,626.19
7/1/10	7/30/10	5954	701,758.61	150,082.14	551,676.47
8/11/0	8/31/10	5954	769,859.68	491,164.21	278,695.47
9/1/10	9/29/10	5954	769,286.41	194,360.51	574,925.90
9/8/10	9/27/10	3907	150,050.00	60,751.83	89,298.17
10/1/10	10/29/10	5954	836,747.15	103,823.95	732,923.20
11/1/10	11/30/10	5954	850,163.62	140,536.03	709,627.59
11/18/10	11/30/10	3907	50,000.00	39,388.11	10,611.89
12/1/10	12/31/10	5954	1,038,522.34	81,988.84	956,533.50
2011					
1/1/11	1/31/11	5954	750,474.14	76,648.01	685,826.13
2/1/11	2/21/11	5954	840,705.41	145,009.18	695,696.23
3/1/11	3/31/11	5954	963,640.42	415,142.06	548,498.36
4/1/11	4/30/11	5954	854,411.04	114,424.61	739,986.43
5/1/11	5/30/11	5954	871,570.47	131,874.77	739,695.70
6/1/11	6/30/11	5954	877,012.83	234,590.79	642,422.04
7/1/11	7/31/11	5954	753,829.10	179,180.10	574,649.00
8/1/11	8/31/11	5954	799,246.84	60,690.48	738,556.36

9/1/11	9/30/11	5954	174,587.65	3,969.58	170,618.07
10/1/11	10/31/11	5954	684,108.49	51,010.77	633,097.72
10/1/11	10/31/11	3907	297,233.07	18,266.22	278,966.85
11/1/11	11/30/11	5954	340,688.30	208,233.42	132,454.88
12/1/11	12/31/11	5954	128,913.77	23,226.99	105,686.78
2012					
2/7/12	2/16/12	5954	31,928.43	9,107.80	22,820.63
2/17/12	2/28/12	5954	55,053.09	26,844.02	28,209.15
5/1/12	5/29/12	5954	13,973.61	0.00	13,973.61
Totals			**35,286,970.86**	**10,618,819.43**	**24,680,151.01**

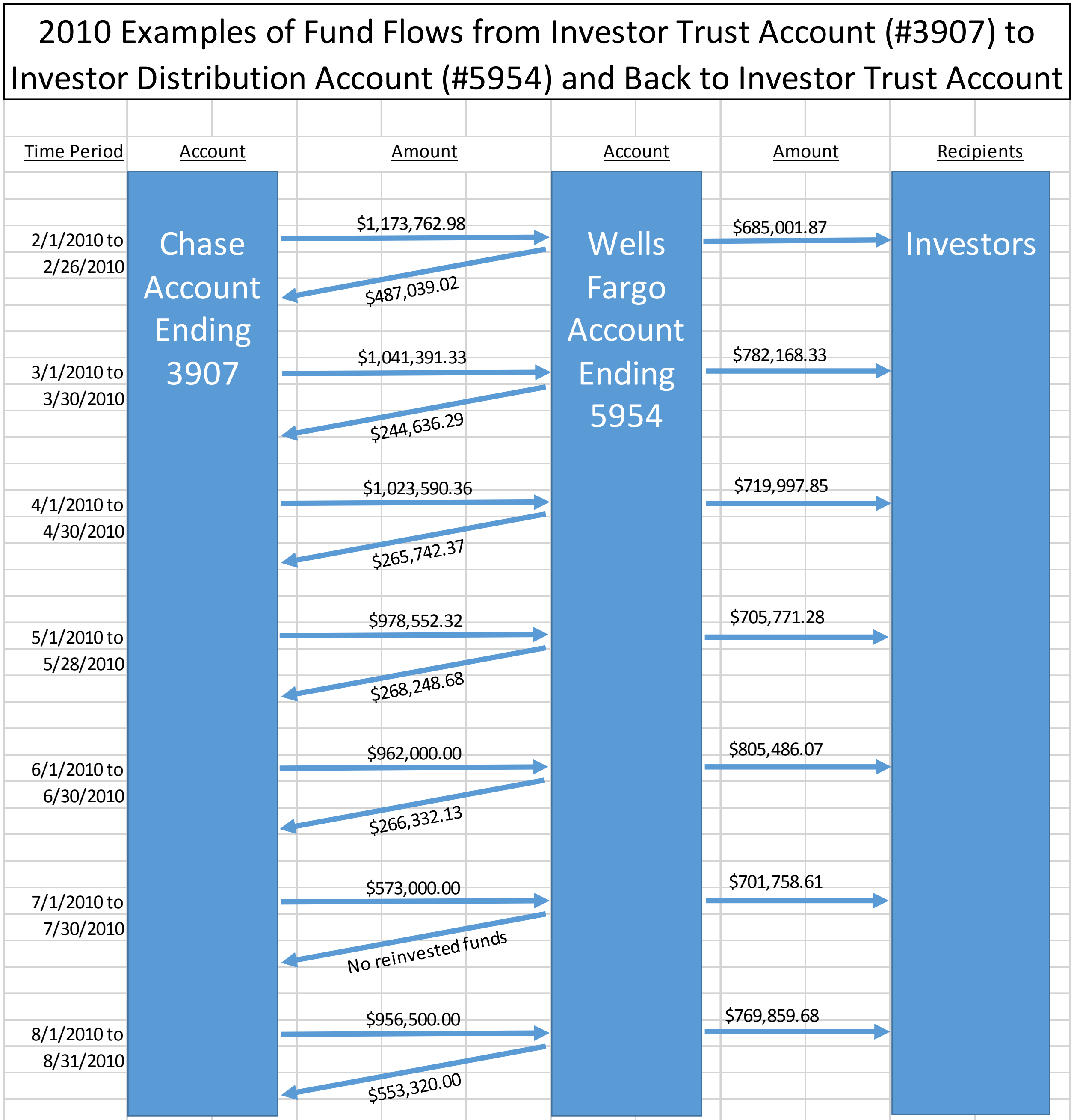
An examination of these specific examples of fund flows show that during these particular time periods, N. Note made investor distributions totaling $35286,970.86. However, the bank accounts from which these payments were made had only $10,618,819.43 in funds that derived from sources other than investors. As a result, these investor distributions could have been paid only by N. Note using new funds taken from investors to supplement existing funds. During these particular time periods, at least $24,680,151.01 of new investor funds were used to fund distributions to other investors.

E. Fund Transfers Between Investor Trust Account and Investor Distribution Account

As can be seen from the specific examples described above, significant funds were transferred from the investor trust account at Chase Bank (#3907) to the investor distribution account at Wells Fargo (#5954) so that N. Note would be able to make distribution payments to investors. However, large portions of the amounts transferred from the #3907 account to the #5954 account were transferred directly back to the #3907 account and called "reinvested dividends." When these funds were redeposited into the #3907 account, the money was available for subsequent transfer to the #5954 account.

Graphic Number 171 on the following page illustrates the size of these payments during seven months in 2010:

Graphic No. 171



For the full 2010 year, N. Note transferred $11,859,188.30 from #3907 to #5954. N. Note paid $9,369,677.33 to investors in distributions from #5954 bank account. N. Note sent $3,903,112.69 from this account back to #3907, where it was available for transfer to #5954 account in later months.

F. **Deposition Testimony:**

4. Deposition of Mr. Palmer: Mr. Palmer's deposition was taken by the SEC on May 30, 2012. In his deposition, Mr. Palmer emphatically denied that N. Note or the NNU enterprise was operating as a Ponzi scheme. Nevertheless, Mr. Palmer acknowledged that funds from investors were often the source of distribution payments made to other investors. His statements include:

a. On March 16, 2010, $1.1 million came into N. Note from an investor. Those funds were used to make multiple payments to earlier investors.[208]

b. Palmer testified that if new investor money came in and N. Note had no place to put that money in a new asset, the new money would be used to pay back other investors.[209]

c. Palmer stated that investors were told that their funds would be used to make interest payments to other investors.[210]

5. Deposition of Victor Wagner: Mr. Wagner was the head of accounting for NNU. His deposition was taken by the SEC on May 15, 2012. Mr. Wagner denied that N. Note or the NNU enterprise engaged in improper practices. Nevertheless, Mr. Wagner acknowledged that funds from investors were often transferred directly from the investor trust bank account to the investor distribution account where the funds were used to make distribution payments to investors:

a. On March 2, 2010, an investor sent $1 million to N. Note for investment. The money was deposited into the investor trust account (#3907). The same day, $935,000.00 of

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[208] Tr. 147:17-149:6. Palmer described this practice as new investors "refinancing" old investors.
[209] Tr. 152:10-153:2.
[210] Tr. 174:4-175:19.

that money was moved to the investor distribution account (#5954), where it could be used to make distribution payments to investors.[211]

b. When the $935,000.00 was moved to the investor distribution account, hundreds of checks were written from the investor distribution account to make interest payments to investors.[212]

c. This transfer went directly from the investor trust account to the investor distribution account; the money was not moved through N. Note's operating bank account.[213]

d. Within 11 days of this $935,000.00 transfer of funds to the investor distribution account, the full $935,000.00 had been paid out in distributions to other investors, leaving the bank account balance below the amount just before the $935,000.00 was deposited.[214]

During another time period, $11.5 million was deposited into the investor distribution account. Of this total, $11.2 million was deposited directly into the investor distribution account from the investor trust account.[215]

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[211] Tr. 82:4-82:10. Wagner asserts that this was appropriate since N. Note made book entries showing the money being loaned to various affiliates then immediately paid to N. Note as interest. N. Note then recorded this book entry as interest income.

[212] Tr. 86:11-87:4.

[213] Tr. 93:18-94:18; 100:5-100:13.

[214] See chart at Tab 45.

[215] Tr: 102:20-103:7.

CONCLUSION

This report is based upon a review and analysis of the NNU books and records in my possession and is based on the facts known to me at this time. I reserve the right to amend this report if additional facts or information are made available to me.

Dated this 12th day of February, 2014

Wayne Klein

R. Wayne Klein
Court-Appointed Receiver of National Note of Utah, LC and affiliated entities