

Independent Accountant's Review Report

To Mr. Joseph LaForte:

I have reviewed certain forensic reports prepared by Joel D. Glick, CPA/CFF, CFE, of the firm Berkowitz Pollack Brant. The reports are entitled the "Expert Report of Joel D. Glick, CPA/CFF, CFE" dated August 13, 2021 ("Glick Expert Report") and the "Expert Rebuttal Report of Joel D. Glick, CPA/CFF, CFE" dated August 27, 2021 ("Glick Rebuttal Report") and were prepared for the benefit of Joseph LaForte in his defense of certain claims alleged by the Securities and Exchange Commission ("SEC"). The management of Complete Business Solutions Group, Inc. ("CBSG") is responsible for providing the Glick reports and supporting information, in accordance with the assertions listed below. My responsibility is to express a conclusion on this information based on my review.

ASSERTIONS

- A. CBSG was profitable. CBSG made money on the funding portfolio. CBSG did not need to use new noteholder money to prop it up or to fund ongoing operations.
- B. The approach followed by the forensic accountant hired by the SEC, Melissa Davis ("Davis"), would never be used to analyze the value or profitability of an ongoing concern. Such an analysis violated generally accepted accounting principles ("GAAP").
- C. Noteholder funds were not used and were not needed to be used to pay Consulting Fees. Consulting Fees came from ongoing profitability of the funding portfolio.
- D. The Glick Expert Report and the Glick Rebuttal Report were prepared in a standard format and are accurate.

My review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that I plan and perform the review to obtain limited assurance about whether any material modifications should be made to the Glick reports in order for them to be in accordance with the assertions. The procedures performed in a review vary in nature and timing from and are substantially less in extent than, an examination, the objective of which is to obtain reasonable assurance about whether the Glick reports are in accordance with the assertions, in all material respects, in order to express an opinion. Accordingly, I do not express such an opinion. Because of the limited nature of the engagement, the level of assurance obtained in a review is substantially lower than the assurance that would have been obtained had an examination been performed. I believe that the review evidence obtained is sufficient and appropriate to provide a reasonable basis for my conclusion.

I am required to be independent and to meet other ethical responsibilities in accordance with relevant ethical requirements related to the engagement.

This report is intended solely for the information and use of Mr. LaForte and other parties as may be required in CBSG's case with the SEC, including potential use as evidentiary support in briefings and proceedings before the Court. This report is not intended to be, and should not be, used by anyone other than the specified parties.

Based on my review, I am not aware of any material modifications that should be made to the Glick reports in order for them to be in accordance with the assertions.



Certified Public Accountant
Bala Cynwyd, Pennsylvania
July 1, 2022

I. SCOPE OF ASSIGNMENT

I have been retained by Joseph LaForte to perform an attestation/validation of certain forensic reports prepared by Joel D. Glick, CPA/CFF, CFE ("Glick"), of the firm Berkowitz Pollack Brant. These reports will be referred to as the "Glick Expert Report" and the "Glick Rebuttal Report" and were prepared for the benefit of Joseph LaForte in his defense of certain claims alleged by the Securities and Exchange Commission ("SEC") and to attest to the accuracy of the Glick reports.

The scope period of this report covers the operations of Complete Business Solutions Group, Inc. ("CBSG") from its inception in January 2012 through July 2020. I have endeavored to support the following points by attestation:

- A. CBSG was profitable. CBSG made money on the funding portfolio. CBSG did not need to use new noteholder money to prop it up or to fund ongoing operations.
- B. The approach followed by the forensic accountant hired by the SEC, Melissa Davis ("Davis") would never be used to analyze the value or profitability of an ongoing concern. Such an analysis violated generally accepted accounting principles ("GAAP").
- C. Noteholder funds were not used and were not needed to be used to pay Consulting Fees. Consulting Fees came from ongoing profitability of the funding portfolio.
- D. The Glick Expert Report and the Glick Rebuttal Report were prepared in a standard format and are accurate.

II. QUALIFICATIONS

I am a Partner in charge of quality assurance at the accounting firm of IS Partners, LLC ("ISP"). ISP was established in 2005 and today has over 35 employees with a principal office in suburban Philadelphia, Pennsylvania. I am a Certified Public Accountant (CPA), designated by the American Institute of Certified Public Accountants; a Certified Fraud Examiner (CFE), designated by the Association of Certified Fraud Examiners; and a HITRUST Certified Common Security Framework Practitioner, designated by the HITRUST Alliance.

Refer to Exhibit I for a professional biography.

III. DOCUMENTS REVIEWED

In forming the conclusions expressed in this report, I reviewed and considered the following documents:

- Forensic reports prepared by Joel Glick
 - “Expert Report of Joel D. Glick, CPA/CFF, CFE” dated August 13, 2021
 - “Expert Rebuttal Report of Joel D. Glick, CPA/CFF, CFE” dated August 27, 2021
- Forensic report prepared by Melissa Davis
 - “Report of Expert,” submitted by Melissa Davis, CPA, CIRA, CFE dated August 13, 2021
- CBSG financial data maintained in QuickBooks
- CBSG-prepared and maintained financial information
- Noteholder promissory notes

IV. KEY ASSERTIONS

A. CBSG's Profitability

- Glick explains the profitability of CBSG and addresses erroneous claims from DSI and Davis.

We begin with the assertion that CBSG operated a profitable business, which is cited in the Glick Expert Report in Exhibit 6. Glick prepared a chart showing that on an accrual basis, between 2012 and 2019, CBSG generated factoring fee revenue totaling \$408.8 million and an additional \$25.8 million of ancillary fee income totaling \$434.6 million. Accrual basis net income during this period was \$64 million. Note that the expenses of CBSG as detailed in the chart included: \$104.7 million in noteholder interest expenses; \$133.6 million of commission and consulting expenses; and recognition of \$106.1 million of factoring losses. All of these amounts were deducted prior to arriving at the net income of \$64 million.

Also note that principal payments of \$135.3 million have been made to noteholders during the seven-year period from 2012 through 2019.

On the most recently filed tax return for CBSG (year ended 2018), total revenue (gross receipts) equaled \$123 million. This is distinguished from the cumulative net profits after expenses during the seven-year period from 2012-2019, which equaled \$64 million.

During that same period from 2012 through 2019, revenue (primarily factoring fees) had consistent annual growth.

Validation Procedure

I traced the income and expense amounts in Exhibit 6 from 2012-2019 to the QuickBooks data of CBSG.

Conclusion

The revenue and expense data in Exhibit 6 are accurate.

- Factor Rates collected from settled merchants were confirmed by Glick to average well over 1.30, including 2,700 that averaged over 1.41.

On page 72 of the Glick Expert Report, Glick prepared a chart showing several categories of merchant groups and their corresponding accounts receivable balances. Glick identified all of the merchant deals within each of these groups and calculated the aggregate cash advanced and the actual factoring fees earned, as well as those with the potential to be earned, based on current accounts receivable.

Validation Procedure

I recalculated the factor rates for each of the merchant groups. I also inspected an internally prepared spreadsheet of the daily fundings to merchants and noted that the factor rates for individual merchant advances were comparable to the average rates calculated for the merchant groups.

Conclusion

The factor rates per merchant group are accurate and indicate that significant factoring fee revenue was generated by the merchant advances.

- Glick demonstrates how Davis disregards GAAP in attempting to diminish the profitability of CBSG.

On page 4 of the Glick Rebuttal Report, Glick stated that Davis disregards U.S. Generally Accepted Accounting Principles ("GAAP") in her use of a cash-based analysis of Merchant Advances Receivables. GAAP makes clear that a cash flow analysis alone is not appropriate to determine CBSG's profitability and that an accrual-based analysis is the only method of accurately assessing profitability.

On page 19 of the Glick Rebuttal Report, Glick refers to the Davis Report in citing Statement of Financial Concepts No. 5 ("CON5"), which states that revenue should be recognized when it is earned and, therefore, *before it is collected*. This is a cornerstone of accrual accounting. The Davis Report also refers to Statement of Financial Accounting Concepts No. 1 ("CON1") that describes the "matching principle," which requires earnings (i.e., receivables), to be

recognized, in accordance with CON5, and recorded in the same period as expenses (payables) incurred to generate those earnings.

Conclusion

Glick's explanation of GAAP and justification for applying GAAP in determining the profitability of CBSG are correct, as required by Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Concepts No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*. These concepts are foundational to accrual accounting for any business to report an accurate financial position.

B. GAAP Methodology

- Glick refers to usage of the ASU 2016-13 accounting standard ("Measurement of Credit Losses on Financial Instruments") for CBSG's accounting methodology.

On page 61 of the Glick Expert Report, Glick cites two publicly traded companies having subsidiaries in the Receivables Purchase Agreement business, which supports the adoption of ASU 2016-13 for businesses in similar industries, such as factoring.

In addition to financial reporting requirements for the accrual basis, the Internal Revenue Service ("IRS") requires accrual basis reporting. Per Internal Revenue Code §448, "Limitation on Use of Cash Method of Accounting," except as otherwise provided in this section, in the case of a:

I.R.C. § 448(a)(1) —
C corporation,

I.R.C. § 448(a)(2) —
partnership which has a C corporation as a partner, or

I.R.C. § 448(a)(3) —
tax shelter,

taxable income shall not be computed under the cash receipts and disbursements method of accounting. (emphasis added)

Both the 2017 and 2018 tax returns of CBSG (Form 1120, C Corp.) reflect the accounting method as accrual. DSI apparently ignored that CBSG's tax returns and tax obligations were, as required by the IRS, prepared using the accrual accounting method.

Conclusion

Glick's reference to a GAAP standard for businesses in the receivables purchase industry and his citation of the IRS requirement to use the accrual method for tax reporting were appropriate and support the accrual basis of accounting as utilized by CBSG in its tax returns.

- To accurately assess profitability, CBSG must apply GAAP.

On page 67 of the Glick Expert Report, Glick explains that under GAAP, a portion of every merchant advance repayment must be designated to repay the initial advance and that a portion must be recognized as factor income. The cumulative factor income (revenue) is the primary driver in generating net income (profitability).

On page 4 of the Glick Rebuttal Report, Glick states how Davis disregards U.S. generally accepted accounting principles ("GAAP") in her use of a cash-based analysis of Merchant Advances Receivables. GAAP makes clear that a cash flow analysis alone is not appropriate to determine CBSG's profitability and that an accrual-based analysis is the only method of accurately assessing profitability.

Davis' cash basis method and hypothetical liquidation is inappropriate for the scope of this analysis due to the fact that CBSG was an ongoing business and that the Court specifically stated that the SEC's action was not going to be a liquidation. Furthermore, Davis' cash basis analysis does not consider the future collection of receivables, which is a critical component of CBSG's standard operations since its inception in 2012.

Conclusion

Glick's explanation and rationale for using GAAP accrual accounting are correct, as this approach leads to a proper and accurate assessment of CBSG's profitability.

C. Cash Flow

- CBSG no longer raised capital from noteholders as of March 2020. Nonetheless, it continued to pay interest and principal afterwards without raising capital.

This condition demonstrates that even though no outside noteholder funds were received by CBSG during the period from April 2020 through July 2020, CBSG was nevertheless able to pay its noteholders. On the CBSG investor log, interest expenses of \$2.38 million per month plus \$14.6 million in principal repayments were fully covered by CBSG's cash flow.

After March 2020, CBSG suspended sales of promissory notes while continuing to fund and service its clients. Their funding volume increased consistently from April to July 2020 without additional cash flow from the sale of promissory notes.

Validation Procedure

For the period April 2020 through July 2020, I generated a cash flow statement using CBSG's QuickBooks data to ascertain whether CBSG could continue to pay the interest and principal payments to its noteholders without raising additional capital.

I also reviewed the CBSG Investor Log and the CBSG Bank Activity Report Analysis to isolate the cash flows during the period April 2020 through July 2020.

Conclusions

The fact that cash flows generated by CBSG (primarily, collection of merchant accounts receivable) during the period April 2020 through July 2020 were sufficient to cover the interest and principal payments to noteholders, without any additional capital from noteholders, is significant. This proves that the fees generated from the funding portfolio were sufficient to cover interest and principal payments with no outside funding from noteholders.

- The analysis of Davis would never be used to determine the profitability of an ongoing business, public or private, because it improperly assumed, at a random date in time, both an unrealistic complete liquidation of \$365M of noteholder debt against current cash balances of ~\$30M in July 2020, and the immediate termination of ongoing business operations and revenue generating activities. Such a methodology violates every accounting standard to determine the financial wherewithal and profitability of an operating business.

Davis makes this clear in paragraphs 124-126 of the Davis report. These paragraphs are based on two main assumptions, both of which are not only false, but would never be used to determine the profitability of an ongoing business, public or private:

- 1) CBSG would be liquidated at a randomly selected specific point in time, despite the fact that CBSG was an ongoing and growing business throughout its entire 96-month history.
- 2) Future debt payments to noteholders, including those due over 5 to 7 years, would be immediately accelerated back to the random selected date of liquidation.

Under these two conditions, it would be impossible for many successful businesses with outside financing (bank loans, investor loans, etc.) to have enough cash on hand to pay all outstanding debts – accelerated to a random date. The foregoing Davis assumptions are not based in economic reality and violate the natural order of the flow of funds during a liquidation. And they would never be used to determine the profitability of an ongoing business, public or private.

Even in a proper liquidation – which the Court said was not the case in August 2020 – the analysis would consider the future collection of accounts receivable, which normally occurs within one year after the specific liquidation date. When the business cycle is allowed to run its course, the future collections of merchant receivables are used to pay for the remaining operating costs of the liquidation, including the debt payments.

But this was not a liquidation scenario. This was a going concern since 2012 with 75 or so employees and had been paying noteholder interest and principal payments for years. On page 22 of the Glick Rebuttal Report, Glick emphasizes that since liquidation was not imminent, the presumption should be an analysis of CBSG as a going concern. Indeed, it is required under GAAP, as stated in Accounting Standards Update 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40) (“ASC 205-40”):

“Under generally accepted accounting principles (GAAP), continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity’s liquidation becomes imminent. Preparation of financial statements under this presumption is commonly referred to as the going concern basis of accounting.”

CBSG did not voluntarily decide to liquidate. There are no Court directives requiring liquidation. In fact, the transcript of the August 4, 2020 Status Conference at page 89 states:

“The Court: But the Court is on the record making it very clear, as I have from the beginning, no one is here seeking an end game of liquidation. The Court is not, the receiver is not, and the SEC certainly isn’t. So, we’re going to do our best to try to keep this business working with the current model that we’re still investigating.”

Consequently, while a historical analysis of merchant receivable advances is important to assess collectability, a prospective analysis should have been undertaken for the company as a whole.

The Davis report did not analyze CBSG's profitability as a going concern that had been in business for years.

Conclusion

The liquidation scenario as promoted by Davis is not supported by any of the relevant circumstances in this case. It is clear that Glick followed the proper methodology in viewing CBSG's business as an ongoing entity.

- The amount collected by CBSG in merchant cash advance payments exceeded the cash flow needed to pay for debt service.

On page 14 of the Glick Rebuttal Report, Glick presents a table from the Davis report that compared factoring fee revenue to merchant cash advance receipts. The Davis report states that *"The Factoring Fee Revenue recognized by Par Funding is far less than the amount of funds it collected from the Merchants and far exceeds the actual amount of cash flow generated from the Merchant Advance transactions."* Glick states that the purpose of the Davis table and the following paragraphs of the Davis analysis are unclear. This section of the Davis report seems to imply a negative inference due to significantly disparate dollar amounts.

However, Glick explains that: 1) revenue is less than cash receipts because revenue is only part of cash receipts, the difference represents the return of the original merchant advances, and 2) net cash flow is less than revenue because CBSG uses the excess cash *"to make new Merchant Advances which resulted in additional Merchant Advance receivables and additional cash collections."* This is exactly what is supposed to happen according to CBSG's business model. What is apparent is that the Davis table is improperly comparing accrual-basis to cash-basis amounts without any reconciliation, which is misleading.

This analysis violates GAAP. Moreover, the failure of this analysis is proven by the fact that during the first seven months of 2020, CBSG still generated \$262M in gross cash receipts and \$34.9M in net cash receipts, despite the COVID-19 shutdown beginning in March 2020.

On pages 11-22 of the Glick Expert Report, a series of bar graphs indicate that all merchant advances plus operating expenses were funded by merchant receivables, and the business still had excess cash balances each month.

Validation Procedure

For a sample of years between 2012 and 2019, and for a sample of months between January and July 2020, I generated a cash flow statement using CBSG's QuickBooks data. I then adjusted the cash flows to remove any noteholder funding activity, resulting in adjusted net cash from operations.

Conclusion

- Based on the adjusted cash flow calculations and Glick's analysis of monthly merchant advances, the amount collected by CBSG in merchant cash advance payments exceeded the cash flow needed to pay for debt service.

D. Consulting Fees

- Glick concludes that consulting fees were not paid from noteholder funds.
- CBSG had sufficient cash flows from MCA activity to pay noteholder costs and operating expenses, including consulting fees.
- Glick explains how profits were used to pay noteholders, and company cash flow was not relying on additional capital to make payments to noteholders.

On pages 52-55 of the Glick Expert Report, Glick explains how CBSG's business model was to create leverage using funds borrowed from noteholders to advance to merchants, who in turn would make the requisite payments back to CBSG, thus generating revenue. This is the very model that supports the use of the "first in, first out" (FIFO) method as a tracing method here. In the FIFO method, it is presumed that moneys are paid out in the order in which they were paid in.

In CBSG's business, noteholders were provided an explanation of the business and that their funds were to be used to make merchant advances. As such, it is proper to treat noteholder funds as the first dollars out to merchants.

Glick created a schedule of monthly cumulative inflows and outflows from inception (2012) to December 31, 2019, and tested two key attributes:

- 1) Did monthly merchant payments exceed monthly principal and interest payments to noteholders?

If yes, then the money coming in from merchants exceeded the amount necessary to pay noteholder obligations and, therefore, new noteholder dollars were not needed.

Results - Merchant cash received by CBSG's business operations exceeded the amount of payments to noteholders (principal and interest) for every month of operations.

- 2) Did monthly merchant advances exceed monthly noteholder dollars received?

If yes, then every dollar of noteholder money received would have been absorbed by merchant advances and, therefore, not available to pay principal and interest to other noteholders.

Results - Of the 96 months of CBSG's business life through December 31, 2019, this attribute failed on five (5) days across those months. However, based on the results of the first attribute, there was sufficient cash returned from merchants to satisfy the payments to noteholders, so that additional noteholder dollars would not have been needed. Moreover, in those same months, merchant dollars were also sufficient to cover operational expenses and other payments, including commissions paid to merchant brokers and consulting fees to management.

Conclusion

Glick presents a rational analysis of monthly inflows and outflows to illustrate that CBSG's cash flow was not relying on additional capital to make payments to noteholders. Additionally, merchant receivables collected were adequate to cover commissions paid to merchant brokers and consulting fees to management.

Consulting payments could not have come from noteholder funds due to logistics of cash flows received, and payments for consulting fees were determined by prior quarter funding.

Noteholder funds were already exhausted in merchant cash advance funding before quarterly consulting payments were made.

E. Integrity of Glick reports

Based on my review of the Glick reports and other supporting documentation provided by CBSG, as well as limited sample testing, the Glick reports were prepared accurately and do not contain information that would potentially mislead a user of these reports.

EXHIBIT I

David Dunkelberger, CPA, CFE, HITRUST CCSFP

David is a Partner with IS Partners, LLC, and oversees technical review and quality assurance of SOC 1 and SOC 2 examinations. In this capacity, he maintains a diverse portfolio of client engagements, while contributing to the firm's strategic development and leadership.

During his career, David has held senior positions in public accounting and private industry and previously managed forensic investigations for RSM McGladrey in its FDIC receivership practice. He has successfully delivered assurance, business advisory and investigative services to the financial institutions industry, primarily commercial banks and insurance companies. His experience in risk-based auditing and internal control evaluation generated significant cost savings for clients subject to Sarbanes-Oxley compliance, with reporting to Audit Committees, executive officers, and regulators.

David is an actively licensed Certified Public Accountant and a Certified Fraud Examiner.