

AFTON MARINA & YACHT CLUB, INC.

FINANCIAL STATEMENTS

For the Quarters Ended December 31, 2016 and 2015

Afton Marina & Yacht Club, Inc.
16071 31st Street South
Afton MN 55001

AFTON MARINA & YACHT CLUB, INC.
FINANCIAL STATEMENTS
For the Quarters Ended December 31, 2016 and 2015

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AFTON MARINA & YACHT CLUB, INC.
FINANCIAL STATEMENTS
For the Quarters Ended December 31, 2016 and 2015

ORGANIZATION

Board of Directors:

Jon Reuter, President
Bart Rasmussen, Vice President
Brad Aho, Treasurer
Robert Linder, Secretary
Kevin Cowing
Brad Barger
Michael Cox

Administration:

Glenn Bowman, General Manager



AHOLA, MACK & ASSOCIATES, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS

1815 Northwestern Avenue South • Suite 4 • Stillwater, MN 55082
Phone (651) 430-1064 • Fax: (651) 430-1588 • www.aholamackcpa.com

Independent Accountant's Review Report

To the Board of Directors
Afton Marina & Yacht Club, Inc.
16071 31st Street South
Afton MN 55001

We have reviewed the accompanying financial statements of Afton Marina & Yacht Club, Inc., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income and retained earnings and cash flows for the periods then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles general accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our report.

Accountant's Conclusion

Based on our review, we are not aware of any material modification that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Ahola, Mack & Associates, Ltd.
Stillwater, Minnesota 55082
January 25, 2017

AFTON MARINA & YACHT CLUB, INC.

BALANCE SHEETS

December 31, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ -	\$ 1,576
Accounts receivable - trade	92,296	111,346
Inventories	124,679	105,085
Prepaid expenses	3,619	3,619
Insurance Receivable	-	37,413
TOTAL CURRENT ASSETS	220,594	259,039
PROPERTY AND EQUIPMENT, net of accumulated depreciation	1,719,759	1,823,829
INTANGIBLE ASSETS, net of amortization	-	4,621
	\$ 1,940,353	\$ 2,087,489
 LIABILITIES and EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 36,408	41,243
Escrow payable	2,128	2,128
Accrued expenses	51,876	44,505
Security deposits	1,995	8,995
Deferred revenue	40,547	49,388
Revolving Debt	62,600	33,300
Promissory Note	50,000	-
Current portion of long-term debt	86,541	176,125
TOTAL CURRENT LIABILITIES	332,095	355,684
LONG-TERM DEBT, less current portion	19,058	105,175
TOTAL LIABILITIES	351,153	460,859
 EQUITY		
Membership capital - original	5,262,518	5,262,518
Retained earnings	(3,673,318)	(3,635,888)
TOTAL EQUITY	1,589,200	1,626,630
	\$ 1,940,353	\$ 2,087,489

See accountant's report and accompanying notes to the financial statements.

AFTON MARINA & YACHT CLUB, INC.
 STATEMENTS OF INCOME AND RETAINED EARNINGS
 For the Quarters Ended December 31, 2016 and 2015

	2016	2015
INCOME	\$ 540,157	\$ 615,490
COST OF GOODS SOLD	136,560	172,299
GROSS PROFIT	403,597	443,191
 EXPENSES		
Salaries and wages	134,391	139,333
Fringe benefits and payroll taxes	8,178	5,705
Advertising and promotion	8,682	9,773
Bad debts	-	-
Licenses and permits	984	500
Property taxes	25,525	23,609
Dues and subscriptions	100	509
Bank and credit card fees	5,549	8,615
Insurance expense	15,660	12,089
Interest expense	2,333	3,938
Office supplies and computer	8,040	11,890
Professional fees	1,593	2,682
Repairs and maintenance	8,713	29,307
Supplies	9,506	10,808
Utilities	21,268	20,195
	250,522	278,953
 NET ORDINARY INCOME (LOSS)	 153,075	 164,238
 OTHER INCOME (EXPENSE)		
Depreciation expense	(29,369)	(29,828)
Finance charges	3,305	3,203
Other expenses	-	3,392
	(26,064)	(23,233)
 NET INCOME (LOSS)	 127,011	 137,774
BEGINING RETAINED EARNINGS	(3,800,329)	(3,773,662)
 ENDING RETAINED EARNINGS	 \$ (3,673,318)	 \$ (3,635,888)

See accountant's report and accompanying notes to the financial statements.

AFTON MARINA & YACHT CLUB, INC.
 STATEMENTS OF INCOME AND RETAINED EARNINGS
 For the Years to Date December 31, 2016 and 2015

	2016	2015
INCOME	\$ 1,981,021	2,166,064
COST OF GOODS SOLD	781,299	866,677
GROSS PROFIT	1,199,722	1,299,387
 EXPENSES		
Salaries and wages	577,392	527,537
Fringe benefits and payroll taxes	27,555	26,610
Advertising and promotion	55,214	68,536
Bad debts	3,109	1,002
Licenses and permits	4,255	4,270
Property taxes	102,098	104,750
Dues and subscriptions	1,069	1,644
Bank and credit card fees	20,151	23,548
Insurance expense	56,758	50,492
Interest expense	12,709	20,737
Office supplies and computer	29,048	31,877
Professional fees	9,968	9,031
Repairs and maintenance	61,626	113,370
Supplies	80,544	62,171
Utilities	85,335	82,544
	1,126,831	1,128,119
 NET ORDINARY INCOME (LOSS)	 72,891	 171,268
 OTHER INCOME (EXPENSE)		
Depreciation expense	(116,856)	(119,310)
Finance charges	6,535	8,375
Other expenses	-	(1,351)
	(110,321)	(112,286)
 NET INCOME (LOSS)	 (37,430)	 58,982
BEGINING RETAINED EARNINGS	(3,635,888)	(3,694,870)
 ENDING RETAINED EARNINGS	 \$ (3,673,318)	 \$ (3,635,888)

See accountant's report and accompanying notes to the financial statements.

AFTON MARINA & YACHT CLUB, INC.
STATEMENTS OF CASH FLOWS
For the Quarters Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 127,011	\$ 137,774
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	29,369	29,828
(Increase) decrease in Accounts receivable	23,098	28,734
(Increase) decrease in Inventory	(18,768)	23,981
(Increase) decrease in Prepaid expenses	15,660	10,895
(Increase) decrease in Insurance Receivable	-	(37,413)
Increase (decrease) in Accounts payable	(48,398)	(53,372)
Increase (decrease) in Escrow Payable	-	1
Increase (decrease) in Security deposits	(11,372)	(7,334)
Increase (decrease) in Accrued expenses	(41,244)	(57,813)
Increase (decrease) in Deferred revenue	(98,687)	(67,598)
Increase (decrease) in Promissory Note	50,000	-
Increase (decrease) in Term Loan	14,000	23,168
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	40,669	30,851
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from asset dispositions	-	-
Purchases of property and equipment	-	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	-	-
 CASH FLOWS FROM FINANCING ACTIVITIES		
Debt reduction	(40,669)	(38,459)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(40,669)	(38,459)
 NET INCREASE (DECREASE) IN CASH	(0)	(7,608)
CASH AT BEGINNING OF PERIOD	-	9,184
CASH AT END OF PERIOD	\$ (0)	\$ 1,576
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	2,333	3,938
Income taxes paid	600	500

See accountant's report and accompanying notes to the financial statements.

AFTON MARINA & YACHT CLUB, INC.
STATEMENTS OF CASH FLOWS
For the Years to Date December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (37,430)	\$ 58,982
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	116,856	119,310
(Increase) decrease in Accounts receivable	19,050	(6,516)
(Increase) decrease in Inventory	(19,594)	5,070
(Increase) decrease in Prepaid expenses	-	-
(Increase) decrease in Insurance Receivable	37,413	(37,413)
Increase (decrease) in Accounts payable	(4,835)	2,188
Increase (decrease) in Escrow Payable	-	(5,000)
Increase (decrease) in Accrued expenses	7,371	(3,348)
Increase (decrease) in Security deposits	(7,000)	(303)
Increase (decrease) in Deferred revenue	(8,841)	5,302
Increase (decrease) in Promissory Note	50,000	-
Increase (decrease) in Term Loan	29,300	33,300
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	182,290	171,574
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from asset dispositions	-	-
Purchases of property and equipment	(8,165)	(11,906)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(8,165)	(11,906)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Debt reduction	(175,701)	(165,026)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(175,701)	(165,026)
 NET INCREASE (DECREASE) IN CASH	(1,576)	(5,358)
CASH AT BEGINNING OF PERIOD	1,576	6,934
CASH AT END OF PERIOD	\$ (0)	\$ 1,576
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	12,709	20,737
Income taxes paid	2,465	2,000

See accountant's report and accompanying notes to the financial statements.

AFTON MARINA & YACHT CLUB, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1-SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Afton Marina and Yacht Club, Inc. is a full service Marina. The Company primarily provides repair services for boats and yachts and provides its members with recreational facilities.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased. These balances have not exceeded the FDIC insurance limit.

Receivables and Credit Policies

The company considers its accounts receivable to be fully collectible. Receivables are uncollateralized member and customer obligations due under normal trade terms. As of the report date no allowance for uncollectible accounts was considered necessary.

Inventories

Inventories are valued using a weighted average and include all marketable units. Any obsolete inventory is expensed at year end as a cost of sale. Inventory consists of retail clothing, service parts and work in progress.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated by the straight-line method for financial reporting purposes based on the following estimated useful lives:

	<u>Years</u>
Docks	15 – 20
Buildings	27 - 40
Land, dredging and improvements	15 - 39
Pool & landscaping	15 - 40
Equipment and office	5 – 15
Computer equipment	5 - 7
Vehicles	5

For federal income tax purposes, depreciation is computed using the accelerated cost recovery system and the modified accelerated cost recovery system. Expenditures for major renewals and betterments, including the company employee's labor, that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expenses as incurred. The cost of assets retired or sold, together with the related accumulated depreciation, are removed from the appropriate asset and depreciation accounts and the resulting gains or losses are included in income.

AFTON MARINA & YACHT CLUB, INC.
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE 1-SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

The Company reviews its property and equipment for impairment whenever events indicate the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flow is less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds the fair value.

Intangible Assets

Deferred financing costs include costs associated with obtaining various debt facilities and are being amortized over the life of the related debt facilities on a straight-line basis.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements using the liability method. Deferred taxes are based on the estimated future tax effects of differences between financial statement and tax basis of assets and liabilities given the provisions of the enacted tax laws. Any deferred tax asset or liability is deemed to be immaterial, thus no amount has been recorded.

Use of Estimates

The Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

The Company expenses advertising costs as they are incurred.

NOTE 2-PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Docks	\$ 4,737,376	\$ 4,737,376
Buildings	1,716,910	1,716,910
Land, dredging and improvements	790,544	790,544
Pool and landscaping	534,816	534,816
Office and Equipment	576,693	573,275
Computer Equipment	137,093	132,346
Vehicles	<u>91,741</u>	<u>91,741</u>
Total	8,585,173	8,577,008
Accumulated depreciation	<u>(6,865,414)</u>	<u>(6,753,179)</u>
Net property and equipment	<u>\$ 1,719,759</u>	<u>\$ 1,823,829</u>

AFTON MARINA & YACHT CLUB, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 3-CONCENTRATION OF CREDIT RISK

The Company operates from one location in Afton, Minnesota. They grant credit to customers, most of whom are located in the Minneapolis/St. Paul area.

NOTE 4-REVOLVING DEBT

The Company has a \$100,000 working capital line of credit arrangement with First National Bank. Interest is at a fixed rate of 5.0%. It is secured by building and equipment.

NOTE 5-PROMISSORY NOTE

The Company has a \$50,000 promissory note with First National Bank. Interest is at a fixed rate of 5.0%. The promissory note is secured by inventory, accounts receivable, general intangibles and equipment. The note is to be repaid on January 25, 2017.

NOTE 6-LONG-TERM DEBT

Long-term debt consists of:

Mortgage, due in monthly installments of \$13,445, including interest at 5.50%, through June 2017, changing every 3 years to the 3 year treasury index plus 3.5%, Secured by land, building and equipment	\$ 79,471
2015 Ford F-350 Truck, refinanced in May 2015, due in monthly installments of 675.11, including interest at 4.50%, through June 2020, Secured by truck	<u>26,128</u>
	105,599
Less current portion	<u>(86,541)</u>
Long-term debt	<u>\$ 19,058</u>

Long-term debt maturities are as follows:

<u>12 Months Ending December 31,</u>	<u>Amount</u>
2017	\$ 86,541
2018	7,395
2019	7,735
2020	<u>3,928</u>
Total	<u>\$ 105,599</u>

AFTON MARINA & YACHT CLUB, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 7-INCOME TAXES

A provision for federal and state income taxes has been charged to income for the period ended of \$600. This represents the State of Minnesota franchise fee based on the assets of the Company.

The Company has loss carryforwards totaling \$3,005,657 as of December 31, 2015 that may be offset against future taxable income. If not used, the carryforwards will expire as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 145,719
2018	168,757
2019	115,126
2020	190,019
2021	188,037
2022	175,611
2023	66,461
2024	149,378
2025	41,069
2026	206,966
2027	464,954
2028	308,160
2029	311,601
2030	47,868
2031	151,737
2032	208,973
2033	28,172
2034	<u>37,049</u>
	<u>\$3,005,657</u>

Since it has been determined that there is uncertainty of utilizing the above loss carryovers, no deferred tax asset has been recorded.

NOTE 8-DEFINED CONTRIBUTION RETIREMENT PLAN

The Company provides a Simple IRA defined contribution plan for the benefit of eligible employees. The Company matches 100% of the employee contributions to the Simple IRA plan up to a maximum of 3% of the employee's salary. Matching contributions were \$4,396 and \$3,849 for the quarters ended, respectively.

AFTON MARINA & YACHT CLUB, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 9-RENTAL INCOME AND RELATED PARTY TRANSACTIONS

The Company has the following rental activity:

- Rents two houses that it owns located on the property to unrelated individuals. The houses are rented out on short-term leases. Gross rents from these properties were \$5,985 and \$5,985 for the quarters ended, respectively.
- Leases a slip to the corporation affiliated with a former board member on a 5 year lease expiring on April 30, 2018. Income from this rental was \$0 and \$1,497 for the quarters ended, respectively.
- Charges storage fees for member and non member boats and docks. The rental income from this activity was \$46,772 and \$43,903 for the quarters ended, respectively.

NOTE 10-ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The Company has evaluated for uncertain tax positions, management has determined there are no uncertain tax positions as of December 31, 2016. The tax returns for the past three tax years remain open for examination by tax jurisdictions.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent Events have been evaluated through January 25, 2017, which is the date the financial statements were available to be issued.

AFTON MARINA & YACHT CLUB, INC.

Supplementary Information

AFTON MARINA & YACHT CLUB, INC.
SCHEDULE OF INCOME BY DEPARTMENT
For the Quarter Ended December 31, 2016

	Service	Canvas	Fiberglass	Boat Sales	Dock Construction	Fuel Dock & Ship Store	Marina Operations	Member Financed Assessments	Administration	Real Estate Rental	Total
Income	198,347	119,848	3,462	180	73,810	10,710	99,038	28,776	-	5,985	540,157
Cost of Goods Sold	<u>43,859</u>	<u>53,235</u>	<u>4,135</u>	<u>11,529</u>	<u>14,939</u>	<u>8,864</u>	-	-	-	-	<u>136,560</u>
Gross Profit	154,488	66,614	(673)	(11,349)	58,871	1,846	99,038	28,776	-	5,985	403,597
Operating expenses											
Materials	4,725	1,230	661	4,511	469	-	9,045	-	-	1,505	22,146
Salaries, wages, benefits & taxes	33,578	19,701	2,027	-	-	-	19,298	-	66,319	-	140,923
Utilities	1,280	3,382	545	701	157	157	13,856	-	1,189	-	21,268
Tax & insurance	-	-	-	-	-	-	41,568	-	600	-	42,168
Professional fees	-	-	-	-	-	-	-	-	1,593	-	1,593
Interest expense	-	-	-	-	-	-	-	1,216	1,117	-	2,333
Operations expenses	-	-	-	-	-	-	-	-	6,999	-	6,998
Bad Debt	-	-	-	-	-	-	-	-	-	-	-
Office expenses	-	-	-	-	-	-	-	-	13,092	-	13,092
	<u>39,583</u>	<u>24,312</u>	<u>3,233</u>	<u>5,212</u>	<u>627</u>	<u>157</u>	<u>83,767</u>	<u>1,216</u>	<u>90,909</u>	<u>1,505</u>	<u>250,522</u>
Net Ordinary Income (Loss)	114,905	42,302	(3,906)	(16,561)	58,244	1,689	15,272	27,561	(90,909)	4,480	153,075
Other Income (Expense)											
Depreciation expense									(29,369)		(29,369)
Finance charges									3,305		3,305
Other expenses	-	-	-	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,064)</u>	<u>-</u>	<u>(26,064)</u>
Net Income (Loss)	<u>114,905</u>	<u>42,302</u>	<u>(3,906)</u>	<u>(16,561)</u>	<u>58,244</u>	<u>1,689</u>	<u>15,272</u>	<u>27,561</u>	<u>(116,973)</u>	<u>4,480</u>	<u>127,011</u>

See accountant's report.

AFTON MARINA & YACHT CLUB, INC.
SCHEDULE OF INCOME BY DEPARTMENT
For the Year to Date Ended December 31, 2016

	Service	Canvas	Fiberglass	Boat Sales	Dock Construction	Fuel Dock & Ship Store	Marina Operations	Member Financed Assessments	Administration	Real Estate Rental	Total
Income	659,942	306,206	59,665	94,990	158,051	158,092	385,599	115,106	-	43,370	1,981,021
Cost of Goods Sold	<u>288,850</u>	<u>179,250</u>	<u>32,396</u>	<u>81,972</u>	<u>72,465</u>	<u>126,366</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>781,299</u>
Gross Profit	371,091	126,956	27,270	13,017	85,586	31,726	385,599	115,106	-	43,370	1,199,722
Operating expenses											
Materials	35,253	18,863	9,676	27,826	6,247	2,090	85,514	-	-	3,065	188,534
Salaries, wages, benefits & taxes	139,598	83,150	25,598	-	631	309	100,131	-	243,814	-	593,231
Utilities	7,230	15,744	1,655	2,477	599	610	52,614	-	4,406	-	85,335
Tax & insurance	-	-	-	-	-	-	160,646	-	2,465	-	163,111
Interest expense	-	-	-	-	-	-	-	9,189	3,520	-	12,709
Professional fees	-	-	-	-	-	-	-	-	5,122	-	5,122
Operations expenses	-	-	-	-	-	-	-	-	26,055	-	26,055
Bad Debt	-	-	-	-	-	-	-	-	3,109	-	3,109
Office expenses	-	-	-	-	-	-	-	-	49,625	-	49,625
	<u>182,081</u>	<u>117,758</u>	<u>36,929</u>	<u>30,303</u>	<u>7,477</u>	<u>3,008</u>	<u>398,905</u>	<u>9,189</u>	<u>338,117</u>	<u>3,065</u>	<u>1,126,831</u>
Net Ordinary Income (Loss)	189,010	9,199	(9,659)	(17,285)	78,109	28,718	(13,305)	105,917	(338,117)	40,305	72,891
Other Income (Expense)											
Depreciation expense									(116,856)		(116,856)
Finance charges									6,535		6,535
Other expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(110,321)</u>	<u>-</u>	<u>(110,321)</u>
Net Income (Loss)	<u>189,010</u>	<u>9,199</u>	<u>(9,659)</u>	<u>(17,285)</u>	<u>78,109</u>	<u>28,718</u>	<u>(13,305)</u>	<u>105,917</u>	<u>(448,438)</u>	<u>40,305</u>	<u>(37,430)</u>

See accountant's report.