To: Jeffrey
From: Harry
Date: February 26, 2013
Re: American Yacht Harbor

I have reviewed AYH and have the following observations:

- Management Fees- Pursuant to the LLC agreement IGY has the ability to charge fees under the following:
    - Management: 7.5% on "gross annual revenues generated by marina operations, in addition to a performance bonus and reimbursement of employee costs and other allocable costs and expenses."
    - Brokerage Services: 6% of gross sales of slips
    - Retail Leasing Services: 5% of gross rent charged over the term of the lease for any lease where IGY serves as the exclusive leasing agent.
    - Development: 5% of all hard and soft costs
    - Total fees for 2010-2012 are as follows:

Year	Management (7.5%)	Leasing (5%)	Total
2010	$502,657	$20,719	$523,376
2011	$549,733	$156,896	$706,629
2012	$543,075	$99,328	$642,403

- The following are concerns with respect to these fees:
    - The management fee is charged on the gross revenue, which includes marina slip revenue, upland revenue, fuel revenue, utility revenue and merchandise revenue.
        - One issue is that 7.5 % management fee is charged on all revenues (both marina and retail rental). The management agreement states, "IGY shall be entitled to annual fee of equal to 7.5% of gross annual revenues generated by marina operations". We should consider challenging the fact that 7.5% should only be charged on the marina revenues and not the upland revenues.
        - As a result the 'Upland Revenues' (real estate) are subject to a management fee of 7.5 % and a "leasing commission fee" of 5% on the gross rent charged over the term of the lease (where IGY was the leasing agent). The leasing fees, per GAAP, are netted against rental income and do not appear as a separate line item or a component of management fees in the P&L on the financials. Was the intent of the agreement to charge fees on rental income upwards of 12.5%
        - Another issue is that AYH purchases fuel, utilities and merchandise and then resells to tenants at a profit. For example in 2012 the gross fuel and utility sales were approximately $3.8 million while the cost to purchase the fuel and utility was approximately $2.8

million. The profit was $1 million. However, the management fee was on the entire $3.8 million. (In 2012 this resulted in additional management fees of $210,000) on these sales.

- In addition fees are charged on rental revenues as recognized per the terms of the lease. However, amounts that are considered an allowance for bad debt and amounts actually that were written-off as uncollectable are not deducted from gross income. Thus the management fee and it appears the leasing fees are not reduced by the uncollected amounts. (The total write-off for 2010-2012 was $307,918 and the total amount reserved for bad debts is $277,154.)

- Comparison of net income to fees from 2010-2012 were as follows;
  - Year P&L Fees
  - 2010 (270,306) 523,376
  - 2011 (73,688) 706,629
  - 2012 (295,492) 642,403

- Payroll- payroll and benefits for 2010-2012 is $935,867 $954,464 and $937,382.
  - I received a list of employee position and salaries. There are 28 employees on the list. They should consider minimizing the amount of staff. (Per the EDC exemption, AYH is only required to employee 24 full time employees).
  - Also, on the attached payroll sheet there are 3 employees with a total of $158,114 in budgeted 2013 base wage payroll. The title is "management and office administration". We should challenge whether these fees should fall under salaries that should be paid from management fees that are paid by AYH.
  - If you add the payroll cost the management fees compared to the gross profit you get the following:

Year	Management fees and leasing fees (a)	Payroll costs (b)	Management Fees plus payroll costs (c)=(a) + (b)	Gross Revenues (d)	Gross profit (e)	@% of fees and payroll cost to gross profit (f) = (c)/(e)
2010	524,000	936,000	1,460,000	7,154,000	4,305,000	34%
2011	707,000	954,000	1,661,000	7,131,000	4,022,000	41%
2012	643,000	937,000	1,580,000	7,246,000	4,334,000	37%

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- Occupancy- As of February 2013 the actual current occupancy rate was 92%. IGY also states that they expect "due to economic conditions and rising costs to accept rental rates that are below those of previous tenants and comparable spaces in order to boost occupancy." Based on this the revenues will decrease and P&L would also decrease. It would be very unlikely from future cash flows to turn a profit on this investment.

- Capital Expenditures- Capital expenditures from 2010-2012 were $140,333 $33,673 and $32,312.
    - In 2012 and 2011 minimal capital improvements were made to the property.
- The budgeted capital expenditure for 2013 is $342,100 (includes $125,000 for painting). This would be a substantial amount as opposed to the current cash balance of approximately $1 million. With respect to these improvements it has to be verified whether they are necessary and whether IGY is getting the best bids. Also, pursuant to the LLC agreement the manager is entitled to a 5% fee on all hard and soft costs of such development. (I am not sure whether AYH will consider this "development" and charge the above fee).

- Note Payable- In August 2007 AYH obtained a $15.3 million loan facility at a rate of LIBOR +2.35%. The balance as of December 2012 is $13.6 million. The loan matures on September 1, 2017.
    - With respect to this loan AYH needs to attempt to refinance for a better + interest rate. Possibly, obtaining financing from a U.S institution with better terms. Also, in 2017 upon the maturity of this note, AYH will have to obtain financing with better terms. (The financing cost to obtain this financing was $316,000).

- Fuel Purchase Contract:
    - The fuel contract was included with the purchase of the property. (AYH is obligated to purchase 65,000 gallons per month) The gross carrying amount is $1,156,000 amortizable over 11.3 years. The termination of this contract is May 31, 2018. AYH has an option to terminate this contract. (AYH would have to reimburse the seller approximately $100,000).
    - I believe that the benefits of this contract should be reviewed to verify whether AYH is getting better prices than what AYH would have to pay on the open market to determine whether they should terminate or continue with this contract.
- Professional fees: Review of the list of fees shows that AYH paid outside accountants (audit and tax) from 2010-2012 $79K, $56K, and $44K. Legal fees were $61K, $82, and $30K.