

**ASSOCIATED
TRAINING
SERVICES CORP.**

FINANCIAL STATEMENT

DECEMBER 31, 2017

STELLAR FINANCIAL MANAGEMENT, LLC

MARK T. WHITISH, CPA

ASSOCIATED TRAINING SERVICES CORP.

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Stellar Financial Management, LLC

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Associated Training Services Corp.
Sun Prairie, Wisconsin

I have reviewed the accompanying financial statements of Associated Training Services Corp., which comprises the balance sheets as of December 31, 2017 and 2016, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to financial statements. 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, I do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountants Responsibility

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

Accountants Conclusion

Based on my review, I am not aware of any material modifications 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.

Stellar Financial Mgmt, LLC

Stellar Financial Management, LLC
Cross Plains, Wisconsin
March 15, 2018

ASSOCIATED TRAINING SERVICES CORP.

BALANCE SHEETS

December 31, 2017 and 2016
See Accountant's Review Report

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash	\$ 508,147	\$ 514,482
Investments	371,417	325,061
Accounts receivable - current students	134,510	265,539
Accounts receivable - related parties	76,987	250,261
Current portion of contracts receivable	1,475,000	1,550,000
Due from related parties	-	-
Current portion on land contract receivable	5,810	5,649
Current portion on note receivable	24,822	16,942
Other current assets	<u>2,240</u>	<u>5,276</u>
Total Current Assets	<u>2,598,933</u>	<u>2,933,210</u>
Property and Equipment		
Buildings and improvements	312,231	312,231
Trailers and equipment	<u>3,014,098</u>	<u>2,511,100</u>
Total Property and Equipment	3,326,329	2,823,331
Less: Accumulated Depreciation	<u>(1,948,972)</u>	<u>(1,686,792)</u>
Net Property and Equipment	<u>1,377,357</u>	<u>1,136,539</u>
Other Assets		
Land contract receivable - net of current portion	80,706	86,516
Notes receivable - related parties	648,687	538,947
Contracts receivable - net of current portion	<u>3,177,783</u>	<u>2,891,641</u>
Total Other Assets	<u>3,907,176</u>	<u>3,517,104</u>
Total Assets	<u>\$ 7,883,466</u>	<u>\$ 7,586,853</u>

See Notes to Financial Statements.

ASSOCIATED TRAINING SERVICES CORP

BALANCE SHEETS

December 31, 2017 and 2016
See Accountant's Review Report

LIABILITIES AND EQUITY

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Current portion of long term debt	\$ 203,000	\$ 68,000
Note payable - line of credit	79,575	81,917
Due to related parties	69,064	423,660
Accounts payable and accrued expenses	208,551	83,906
Accounts payable - related parties	56,504	196,250
Unearned tuition	216,871	265,262
Income taxes payable	<u>11,558</u>	<u>212,893</u>
Total Current Liabilities	<u>845,123</u>	<u>1,331,888</u>
Long Term Liabilities		
Long term debt - net of current portion	400,637	93,692
Deferred income taxes	<u>1,586,600</u>	<u>1,816,000</u>
Total Long Term Liabilities	<u>1,987,237</u>	<u>1,909,692</u>
Total Liabilities	<u>2,832,360</u>	<u>3,241,580</u>
Equity		
Common stock, 3,000 shares authorized, 2,100 shares issued, no par value	3,000	3,000
Retained earnings	5,664,273	4,839,272
Accumulated other comprehensive income:		
Unrealized gains (losses) on investments	19,924	(908)
Treasury stock, 420 shares at cost	<u>(636,091)</u>	<u>(496,091)</u>
Total Equity	<u>5,051,106</u>	<u>4,345,273</u>
Total Liabilities and Equity	<u>\$ 7,883,466</u>	<u>\$ 7,586,853</u>

See Notes to Financial Statements.

ASSOCIATED TRAINING SERVICES CORP.

STATEMENTS OF INCOME

Years Ending December 31, 2017 and 2016

See Accountant's Review Report

	<u>2017</u>	<u>2016</u>
Operating Revenue		
Revenue	\$ 7,980,787	\$ 8,104,706
Other operating revenue	<u>879,082</u>	<u>354,730</u>
Total Operating Revenue	<u>8,859,869</u>	<u>8,459,436</u>
Operating Expenses		
Resident training expenses	4,611,880	4,775,074
Selling, general and administrative expenses	3,198,746	3,076,162
Provision for doubtful accounts	328,098	190,595
Depreciation expense	<u>290,140</u>	<u>268,304</u>
Total Operating Expenses	<u>8,428,864</u>	<u>8,310,135</u>
Income From Operations	<u>431,005</u>	<u>149,301</u>
Other Income (Expense)		
Net collection income	227,171	436,223
Gain on sale of fixed assets	-	-
Interest and dividend income	25,298	33,316
Interest expense	(46,117)	(26,109)
Income taxes	<u>187,644</u>	<u>(248,702)</u>
Total Other Income (Expense)	<u>393,996</u>	<u>194,728</u>
Net Income	<u>825,001</u>	<u>344,029</u>

See Notes to Financial Statements.

ASSOCIATED TRAINING SERVICES CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ending December 31, 2017 and 2016

See Accountant's Review Report

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Comprehensive Stockholders' Equity
Balance January 1, 2016	3,000	4,495,243	(496,091)	-	4,002,152
Comprehensive Income		344,029			344,029
Net income					
Other comprehensive income					
Unrealized losses on investments				(1,208) 300	(1,208) 300
Income tax expense				(908)	(908)
Other Comprehensive Income					
Comprehensive Income					343,121
Balance December 31, 2016	3,000	4,839,272	(496,091)	(908)	4,345,273
Comprehensive Income		825,001			825,001
Net income					
Other comprehensive income					
Unrealized gains on investments				27,432 (6,600)	27,432 (6,600)
Income tax expense				20,832	20,832
Other Comprehensive Income					
Comprehensive Income					845,833
Treasury Stock Redeemed			(140,000)		(140,000)
Balance December 31, 2017	3,000	5,664,273	(636,091)	19,924	5,051,106

See Notes to Financial Statements.

ASSOCIATED TRAINING SERVICES CORP.

STATEMENTS OF CASH FLOW

Years Ending December 31, 2017 and 2016

See Accountant's Review Report

	2017	2016
Cash Flows From Operating Activities		
Net income	\$ 825,001	\$ 344,028
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	328,098	81,379
Depreciation expense	290,140	268,304
Change in assets and liabilities		
(Increase) decrease in:		
Contract and finance receivables	(234,938)	(497,014)
Due from related parties	-	148,605
Other current assets	3,036	(1,920)
Land contract receivable	5,649	5,492
Increase (decrease) in:		
Accounts payable	133,698	680
Accounts payable - related parties	(139,746)	(21,750)
Accrued expenses	(57,443)	(108,540)
Due to related parties	(354,596)	423,660
Accrued and deferred income taxes	(430,735)	83,454
Net cash provided by operating activities	<u>368,164</u>	<u>726,378</u>
Cash Flows From Investing Activities		
Acquisitions of property and equipment	(530,958)	(160,800)
Increase in investments	(25,524)	(69,976)
Purchase of treasury stock	(140,000)	-
Notes receivable - related parties	(117,620)	(431,689)
Proceeds from sale of assets	-	-
Net cash used by investing activities	<u>(814,102)</u>	<u>(662,465)</u>
Cash Flows From Financing Activities		
Proceeds from long term obligations	685,138	120,000
Notes payable - line of credit	(2,342)	(18,083)
Payments on long term obligations	(243,193)	(146,669)
Net cash provided (used) by financing activities	<u>439,603</u>	<u>(44,752)</u>
Increase (decrease) in cash	(6,335)	19,161
Cash, beginning of year	514,482	495,321
Cash, end of year	<u>\$ 508,147</u>	<u>\$ 514,482</u>
Supplementary Disclosures of Cash Flow Information		
Interest paid	<u>\$ 46,117</u>	<u>\$ 26,109</u>
Income taxes paid	<u>\$ 249,691</u>	<u>\$ 165,248</u>

See Notes to Financial Statements

ASSOCIATED TRAINING SERVICES CORP.

NOTES TO FINANCIAL STATEMENTS

NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of business - Associated Training Services Corp. (the School) operates a heavy equipment training center in Sun Prairie, Wisconsin. Enrollment is based on the eligibility of the individual applicants.

Cash and cash equivalents - For preparing the statement of cash flows, cash includes currency, demand deposits, certificates of deposit, and money market accounts, and cash equivalents include investments whose original maturity is three months or less.

Investments - Marketable securities, primarily common stock and mutual funds, are stated at market and are classified as available-for-sale securities.

Securities held as securities available-for-sale are stated at market value.

Accounts receivable and contracts receivable - Students are required to make a minimum down payment for their tuition charges, room and board allowances, and expense allowances from attending the School. These charges are also financed through other student assistance programs, depending on the eligibility of each individual student. The School grants credit to students for any remaining unpaid charges and allowances in the form of a contract receivable. These unsecured contracts require monthly payments and vary in length.

Revenue and interest income - Revenues are recognized based on the amount of course time that has been completed by students, with a provision for uncollectible accounts. Interest income from student contracts receivable is recognized when payments are received.

Property and equipment - Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the following useful lives:

	Years
Buildings and improvements	10 - 30
Tractors, trailers and equipment	3 - 5
Office furniture and equipment	5 - 7

Repairs and maintenance of property and equipment are charged to expense as incurred. Additions, improvements and replacements, and major repairs are capitalized and depreciated. Property under capital leases are amortized over the lease term.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

Advertising and Sales Promotion Costs - Advertising and sales promotion costs are expenses as incurred and totaled \$480,172 and \$461,664 in 2017 and 2016, respectively.

ASSOCIATED TRAINING SERVICES CORP.

NOTES TO FINANCIAL STATEMENTS

**NATURE OF BUSINESS AND
SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Comprehensive income (loss) - Comprehensive income (loss) is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, and is comprised of "net income (loss)" and "other comprehensive income (loss)". The Company's other comprehensive income (loss) is comprised exclusively of unrealized loss on investments, including income taxes attributed to those losses.

CONTRACTS RECEIVABLE - NET OF CURRENT PORTION

The composition of contracts receivable outstanding at December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Contracts receivable - total	\$ 6,700,590	\$ 6,103,495
Allowance for doubtful accounts	<u>2,047,807</u>	<u>1,661,854</u>
	4,652,783	4,441,641
Current portion of contracts receivable	<u>1,475,000</u>	<u>1,550,000</u>
Contracts receivable - net of current portion	<u>\$ 3,177,783</u>	<u>\$ 2,891,641</u>

INVESTMENTS

The company's investment activities were classified as available-for-sale and carried at estimated fair value. Investment securities consist of the following as of December 31, 2017 and 2016:

<u>December 31, 2017</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Cash and Deposit Accounts	\$ 47,074	\$ 943	\$ -	\$ 48,017
Equities	147,493	22,289	-	\$ 169,782
Bond Funds	94,068	1,361	-	\$ 95,429
Exchange-Traded Products	<u>56,258</u>	<u>1,931</u>	<u>-</u>	<u>58,189</u>
Total	<u>344,893</u>	<u>26,524</u>	<u>-</u>	<u>371,417</u>

<u>December 31, 2016</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Cash and Deposit Accounts	\$ 32,699	\$ -	\$ -	\$ 32,699
Equities	\$ 162,202		\$ 2,031	\$ 164,233
Bond Funds	\$ 107,160		\$ 313	\$ 107,473
Exchange-Traded Products	<u>19,520</u>	<u>1,136</u>	<u>-</u>	<u>20,656</u>
Total	<u>321,581</u>	<u>1,136</u>	<u>2,344</u>	<u>325,061</u>

ASSOCIATED TRAINING SERVICES CORP.

NOTES TO FINANCIAL STATEMENTS

**NOTES PAYABLE - BANK AND
LONG TERM DEBT - NET OF CURRENT PORTION**

Notes Payable - Bank consisted of the following:

	<u>2017</u>	<u>2016</u>
Note payable, \$300,000 line of credit, with interest of 3.652%, secures by certificates of deposit, due June 2019	\$ 79,575	\$ 81,917

Long Term Debt consisted of the following:

	<u>2017</u>	<u>2016</u>
Notes payable - finance company - with interest at 3.93%, due in monthly payments of \$6,667 and a final payment of unpaid principal and interest in February 2017, secured by specific asset and general business security agreement	-	12,714
Note payable - finance company, with interest at 0.0%, due in monthly payments of \$3,827 and a final payment of unpaid principal and interest in July 2021	164,467	-
Note payable - bank - with interest at 3.889%, due in monthly payment of \$600 and a final payment of unpaid principal and interest in April 2019, secured by specific asset and general business security agreement	9,319	16,008
Note payable - finance company, with interest at 0.0%, due in monthly payments of \$10,043 and a final payment of unpaid principal and interest in October 2020	341,461	
Note payable - bank - with interest at 4.52%, due in weekly payment of \$816 and a final payment of unpaid principal and interest in June 2017, secured by specific asset and general business security agreement	-	20,172
Note payable - bank - with interest at 4.659%, due in monthly payment of \$2,749 and a final payment of unpaid principal and interest ranging in September 2020, secured by specific asset and general business security agreement	<u>88,390</u>	<u>112,798</u>
Total Long Term Debt	603,637	161,692
Less current portion of long term debt	<u>203,000</u>	<u>68,000</u>
Long Term Debt - Net of Current Portion	<u>\$ 400,637</u>	<u>\$ 93,692</u>

ASSOCIATED TRAINING SERVICES CORP.

NOTES TO FINANCIAL STATEMENTS

NOTES PAYABLE - BANK AND

LONG TERM DEBT - NET OF CURRENT PORTION (Continued)

Aggregate maturities required on long term debt are as follows:

Year ending <u>December 31,</u>	
2018	\$ 203,000
2019	\$ 300,092
2020	\$ 73,907
2021	26,638
Total	<u>\$ 603,637</u>

The book value and estimated current value of the property and equipment securing the above long term debt as of December 31, 2017 is as follows:

	Book <u>Value</u>	Estimated <u>Value</u>
Buildings and improvements	172,483	385,000
Tractors, trailers and equipment	<u>1,204,874</u>	<u>2,265,000</u>
Total	<u>\$ 1,377,357</u>	<u>\$ 2,650,000</u>

LEASE COMMITMENTS

The School leases various training and office equipment under operating lease agreements. Rent expense for the years ended December 31, 2017 and 2016 was \$659,913 and \$549,488.

Future minimum lease commitments at December 31, 2017 are as follows:

Year ending <u>December 31,</u>	
2018	\$ 42,422
2019	<u>41,760</u>
Total	<u>\$ 84,182</u>

INCOME TAXES

Deferred incomes taxes are a result of using accelerated depreciation, installment method of reporting the gain on the sale of property and the cash basis of accounting for income tax purpose. The provision for income taxes for the year ending December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Current	\$ 48,077	\$ 243,702
Deferred	<u>(236,000)</u>	<u>5,000</u>
	<u>\$ (187,923)</u>	<u>\$ 248,702</u>

ASSOCIATED TRAINING SERVICES CORP.

NOTES TO FINANCIAL STATEMENTS

STOCK REDEMPTION

Pursuant to a Stock Restriction and Purchase Agreement, during 2017, the Company redeemed 59 shares of stock from a stockholder. The shares were purchased for \$140,000 and were recorded as treasury stock.

RELATED PARTY TRANSACTIONS

Watertower, Inc. (Watertower), which is under common control, provides lodging for many of the students attending the School. Room charges from the Watertower are added to the student's contracts receivable balance with the School. Lodging charges for the year ending December 31, 2017 and 2016 were \$698,478 and \$667,420, respectively.

Diesel Truck Driver Training School, Inc. (Diesel), which is under common control, operates a truck driver training center adjacent to the School's facilities. Diesel owns the office and classroom facilities on the property. The Schools share the cost of the office and classroom facilities expenses. Diesel provides CDL training to the School's students. Training charges for the year ending December 31, 2017 and 2016 were \$429,000 and \$507,000, respectively.

In 2015 the School sold its land, on land contract, to K Management, LLC, which is under common ownership. The selling price was \$100,000 and is payable in monthly installments of \$681, with interest at 2.82% and a final payment July 2030. The balance of the land contract at December 31, 2017 was \$86,519. K Management, LLC built a new classroom facility for the School that was completed in 2016. The School advanced K Management, LLC \$441,353 to assist in funding the construction costs. This amount is payable in monthly payments of \$2,408 with interest at 2.82% and the unpaid balance due May 31, 2026. The balance of this note receivable at December 31, 2017 is \$417,541. The School entered into a ten year lease agreement with K Management, LLC on June 1, 2016. The monthly rental payments are \$14,978 with annual increases of 3%. The School is responsible for all the operating expenses related to the building.

K Management, LLC built a training facility for the School that was completed in 2017. The School advanced K Management, LLC \$135,170 to assist in funding the construction costs. This amount is payable in monthly payments of \$922 with interest at 2.82% and the unpaid balance due in August 2032. The balance of this note receivable at December 31, 2017 is \$134,563. The School entered into a ten year lease agreement with K Management, LLC on September 1, 2017. The monthly rental payments are \$4,050 with annual increases of 3%. The School is responsible for all the operating expenses related to the building.

The net amounts due to related parties (without the land contract and note receivable described above) were \$69,064 as of December 31, 2017. The net amounts due to related parties were \$423,660 as of December 31, 2016.

ASSOCIATED TRAINING SERVICES CORP.

NOTES TO FINANCIAL STATEMENTS

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The Company adopted the provisions of FASB Accounting Standards (ASC) 740, Income Taxes, on January 1, 2009. Previously, the School had accounted for tax contingencies in accordance with ASC 450, Contingencies. As required by the uncertain tax position guidance in ASC 740, the School recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon an ultimate settlement with the relevant tax authority. As the result of the implementation of the uncertain tax positions guidance in ASC 740, there were no tax positions taken which resulted in the recognition of unrecognized tax benefits as of December 31, 2017.

The School is subject to income taxes in the United States federal jurisdiction, and the State of Wisconsin. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply.

The School recognizes interest accrued related to unrecognized benefits in interest expense and recognizes penalties in operating expenses for all periods presented. During the years ended December 31, 2017 and 2016, the School did not recognize any interest or penalties associated with income taxes in the financial statements.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 15, 2018, the date which the financial statements were available for issue. Management has determined there are no material financial statement subsequent event disclosures necessary as of March 15, 2018.