

XYZ CONSTRUCTION CO., INC.

FINANCIAL STATEMENTS

DECEMBER 31, 20X1

SAMPLE FINANCIAL STATEMENTS

CONTENTS

ACCOUNTANTS' REVIEW REPORT	Page	2
FINANCIAL STATEMENTS		
Balance Sheet	Page	3
Statement of Income and Retained Earnings	Page	4
Statement of Cash Flows	Pages	5 - 6
Notes to Financial Statements	Pages	7 - 13
SUPPLEMENTAL INFORMATION		
Schedules of Earnings from Contracts and Contract Costs	Page	14
Schedules of General and Administrative Expenses and Other (Income) Expense	Page	15
Schedule of Contract Revenues, Costs and Profits	Page	16

JONES, HENLE . SCHUNCK

An Accountancy Corporation

THOMAS N. HENLE, CPA
KARL E. SCHUNCK, CPA
JOHN S. PALMER, CPA
MICHAEL R. HUHNS, CPA
JAMES F. KEPKE, CPA
CRAIG A. CLEVELAND, CPA
GLEN A. THOMAS, CPA
CHRISTOPHER D. YORK, CPA

The Board of Directors
XYZ Construction Co. Inc.
Danville and Irvine, California

We have reviewed the accompanying balance sheet of XYZ Construction Co., Inc. as of December 31, 20X1 and the related statements of income and retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of XYZ Construction Co., Inc.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The supplemental information accompanying the financial statements is presented only for supplementary analysis purposes and has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements. We did not become aware of any material modifications that should be made thereto.

JONES, HENLE & SCHUNCK
An Accountancy Corporation

February 22, 20XX

XYZ Construction Co., Inc. is a fictitious entity. The accounts and balances have been developed for illustrative purposes. -

XYZ CONSTRUCTION CO., INC.
BALANCE SHEET
DECEMBER 31, 20X1

ASSETS

CURRENT ASSETS	
Cash	\$ 125,971
Contract receivables	605,050
Costs and estimated earnings in excess of billings on uncompleted contracts	29,314
Other assets	<u>133,533</u>
Total current assets	893,868
EQUIPMENT - net	<u>276,792</u>
TOTAL ASSETS	<u><u>\$ 1,170,660</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	\$ 247,335
Line of credit	75,000
Billings in excess of costs and estimated earnings on uncompleted contracts	44,153
Accrued expenses	18,342
Income taxes payable	46,660
Current portion of notes payable	31,747
Deferred income taxes	<u>78,460</u>
Total current liabilities	541,697
NOTES PAYABLE - less current portion	95,219
NOTE PAYABLE - STOCKHOLDER	<u>107,248</u>
Total liabilities	744,164
STOCKHOLDERS' EQUITY	
Capital stock	\$ 45,000
Additional paid-in capital	50,000
Retained earnings	<u>331,496</u>
Total stockholders' equity	<u>426,496</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 1,170,660</u></u>

(See accountants' review report and accompanying notes to financial statements)

XYZ CONSTRUCTION CO., INC.
STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 20X1

CONTRACT REVENUES	\$ 3,946,862
CONTRACT COSTS	<u>3,305,519</u>
GROSS PROFIT	641,343
GENERAL AND ADMINISTRATIVE EXPENSES	<u>337,334</u>
OPERATING INCOME	304,009
OTHER EXPENSE - net	<u>26,980</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	277,029
PROVISION FOR INCOME TAXES	<u>105,400</u>
NET INCOME	171,629
RETAINED EARNINGS, beginning of year	<u>159,867</u>
RETAINED EARNINGS, end of year	<u><u>\$ 331,496</u></u>

(See accountants' review report and accompanying notes to financial statements)

XYZ CONSTRUCTION CO., INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 20X1

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 3,700,093
Cash paid to subcontractors, suppliers and employees	(3,557,839)
Interest paid	(26,900)
Income taxes paid	<u>(43,280)</u>
Net cash provided by operating activities	<u>72,074</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of equipment	<u>(4,395)</u>
Net cash used in investing activities	<u>(4,395)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Advances on line of credit	75,000
Repayments on line of credit	(75,000)
Repayment of notes payable	<u>(38,378)</u>
Net cash used in financing activities	<u>(38,378)</u>

NET INCREASE IN CASH 29,301

CASH, beginning of year 96,670

CASH, end of year \$ 125,971

(See accountants' review report and accompanying notes to financial statements)

XYZ CONSTRUCTION CO., INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 20X1

RECONCILIATION OF NET INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

Net income	\$ 171,629
Adjustments To Reconcile Net Income To Net Cash Provided By Operating Activities	
Depreciation	62,303
(Increase) decrease in:	
Contract receivables	(257,168)
Costs and estimated earnings in excess of billings on uncompleted contracts	3,357
Other assets	(10,958)
Increase (decrease) in:	
Accounts payable	35,404
Billings in excess of costs and estimated earnings on uncompleted contracts	3,311
Accrued expenses	2,076
Income taxes payable	25,120
Deferred income taxes	37,000
	<hr/>
Net cash provided by operating activities	\$ 72,074
	<hr/> <hr/>

SUPPLEMENTAL DISCLOSURE OF NON-CASH
FINANCING AND INVESTING ACTIVITIES

Equipment purchased with notes payable	\$ 18,856
	<hr/> <hr/>

(See accountants' review report and accompanying notes to financial statements)

XYZ CONSTRUCTION CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20X1

NOTE 1 ORGANIZATION

XYZ Construction Co., Inc. (Company) is a general contractor specializing in heavy industrial construction principally in California. The Company was incorporated in California in 1993.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The Company performs its work under fixed-price and modified fixed-price contracts, which may be modified by incentive and penalty provisions. The lengths of the Company's contracts vary but are typically less than one year. In accordance with normal practice in the construction industry, the Company includes asset and liability accounts relating to construction contracts, including related deferred income taxes, in current assets and liabilities even when such amounts are realizable or payable over a period in excess of one year.

Revenues from construction contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Revenues from construction claims are recognized when realization is probable and can be reliably estimated.

Contract costs include all direct material, labor costs, equipment and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The asset "costs and estimated earnings in excess of billings on uncompleted contracts" represents revenues recognized in excess of amounts billed. The liability "billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenues recognized.

XYZ CONSTRUCTION CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20X1

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company grants credit to customers in the normal course of operations. Contract receivables are based on management's evaluation of outstanding receivables at year end. Allowance for doubtful accounts, if any, is provided based on the review of outstanding receivables, historical experience and economic conditions. Uncollectible accounts are expensed in the period such amounts are determined.

The Company's financial instruments include cash, contract receivables, other assets and accounts payable. The Company's value of these financial instruments approximates fair value due to their short-term nature.

Financial instruments that potentially subject the Company to credit risk include cash and contract receivables. The Company maintains its demand deposits in commercial banks with Federal Deposit Insurance Corporation limits. The Company may apply a mechanic's lien against any unpaid contract receivables in accordance with state law.

Equipment is stated at cost. Depreciation is provided using the straight line method of depreciation over the estimated useful lives of five to seven years.

Income taxes are provided based on current enacted and applicable income tax rates. Current and deferred income taxes are calculated based on an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

NOTE 3 CONTRACT RECEIVABLES

Contract receivables consist of the following:

Contract receivables	\$ 429,785
Retention receivables	<u>175,265</u>
	<u>\$ 605,050</u>

XYZ CONSTRUCTION CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20X1

NOTE 4 EQUIPMENT

Equipment consists of the following:

Vehicles	\$ 118,758
Construction equipment	235,773
Office equipment	<u>17,940</u>
	372,471
Less accumulated depreciation	<u>(95,679)</u>
	<u>\$ 276,792</u>

NOTE 5 ACCOUNTS PAYABLE

Accounts payable consists of the following:

Accounts payable	\$ 157,335
Subcontractor retention payable	<u>90,000</u>
	<u>\$ 247,335</u>

NOTE 6 LINE OF CREDIT

The Company has a \$300,000 bank line of credit. The line bears interest at prime plus 1% per annum. It is secured by all Company assets and personal guarantees by the stockholders of the Company. The line of credit expires in June 20X5 and it is management's intention to renew the facility. The Company is in compliance with certain financial covenants imposed by the line of credit agreement. At December 31, 20X1, the outstanding balance was \$75,000.

NOTE 7 NOTES PAYABLE

Note with a bank, monthly payments of \$2,319 including interest at 5.25% per annum. The note is secured by construction equipment and matures May 20X6. \$ 95,744

Note with a finance company, monthly payments of \$1055 including interest at 5.50% per annum. The note is secured by company vehicles and matures April 20X5. 25,970

XYZ CONSTRUCTION CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20X1

NOTE 7 NOTES PAYABLE (continued)

Unsecured note, monthly payments of \$328 including interest at 4.50% per annum. The note matures July 20X6.	<u>5,252</u>
	126,966
Less current maturities	<u>(31,747)</u>
	<u>\$ 95,219</u>

Maturities of notes payable are as follows:

December 31, 20X2	\$ 31,747
December 31, 20X3	33,697
December 31, 20X4	26,494
December 31, 20X5	25,158
December 31, 20X6	<u>9,870</u>
	<u>\$ 126,966</u>

NOTE 8 NOTE PAYABLE - STOCKHOLDER

Note payable to officer and stockholder at 9% interest per annum, matures January 1, 20X6.
The outstanding balance at December 31, 20X1 was \$107,248.

NOTE 9 CAPITAL STOCK

Capital stock consists of 1,000,000 shares \$1 par value common stock authorized, 45,000 shares issued and outstanding.

NOTE 10 EMPLOYEE BENEFIT PLANS

The Company has a profit sharing plan whereby it may contribute up to 25% of eligible compensation for all eligible participants. The plan covers all employees who have worked a minimum of 1,000 hours and have completed one year of service, and includes salary deferral provisions. Employer matching contributions are discretionary up to 100% of the employee salary deferrals and vest ratably over five years. For the year ended December 31, 20X1, the Company made matching contributions of approximately \$12,700.

XYZ CONSTRUCTION CO., INC.
NOTES TO FINANCIAL STATEMENTS
EMBER 31, 20X1

NOTE 10 EMPLOYEE BENEFIT PLANS (continued)

The Company also contributes to union trustee pension plans under industry wide agreements. Contributions made to the plan are based on hours worked by employees covered under the agreement and are charged to contract costs. The collective bargaining agreement with the unions will begin to expire in May 20X1. Management does not anticipate any issues with the renegotiations of the agreements. For the year ended December 31, 20X1, contributions of approximately \$84,400 were made to the plans which is included in "contract costs" on the statement of income.

Under the Employee's Retirement Income Security Act of 1974, as amended in 1980, the Company may be liable, on termination or withdrawal from the plan, for an allocated share of the plan's unfunded benefits. Information with respect to the Company's portion of the value of net assets available for plan benefits and actuarial present value of vested accumulation plan benefits was not available from the plans' administrators. However, management of the Company is not aware of any unfunded vested benefits to which they are a party. The Company currently has no intention to terminate or withdraw from the plans.

NOTE 11 LEASE COMMITMENTS

The Company leases its office facilities under non-cancelable operating leases. The lease agreement requires the Company to pay property taxes, insurance, common area expenses and maintenance costs. The lease expires in December 20X6. Total lease expense for the year ended December 31, 20X1 was \$15,125.

Future minimum lease payments under operating leases are approximately as follows:

December 31, 20X2	\$ 15,200
December 31, 20X3	16,300
December 31, 20X4	16,500
December 31, 20X5	15,300
December 31, 20X6	15,300

XYZ CONSTRUCTION CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20X1

NOTE 12 COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Costs incurred on uncompleted contracts	\$ 1,560,846
Estimated earnings	<u>271,655</u>
	1,832,501
Less billings to date	<u>(1,847,340)</u>
	<u>\$ (14,839)</u>

The foregoing balance is included in the accompanying balance sheet under the following captions:

Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 29,314
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>(44,153)</u>
	<u>\$ (14,839)</u>

The above balances are included on the schedule of contract revenues, costs and profits as "under billings" and "over billings".

NOTE 13 CONTRACT BACKLOG

The Company has contract backlog as follows:

Estimated gross revenue on contracts in progress at December 31, 20X1	\$ 3,838,441
Less amounts earned at December 31, 20X1	<u>(1,832,501)</u>
	2,005,940
Additional contracts entered into as of February 22, 20X2	<u>4,623,275</u>
	<u>\$ 6,629,215</u>

XYZ CONSTRUCTION CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20X1

NOTE 14 PROVISION FOR INCOME TAXES

Income tax expense for the year ended December 31, 20X1 consists of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Current	\$ 53,400	\$ 15,000	\$ 68,400
Deferred	<u>26,000</u>	<u>11,000</u>	<u>37,000</u>
	<u>\$ 79,400</u>	<u>\$ 26,000</u>	<u>\$ 105,400</u>

Deferred income taxes are provided on timing differences between financial statement and income tax reporting, principally from the use of the percentage of completion method of accounting for financial statements and the completed contract method of accounting for tax reporting purposes. **At** December 31, 20X1, deferred income is approximately \$272,000.

XYZ CONSTRUCTION, INC.
SCHEDULES OF EARNINGS FROM CONTRACTS AND CONTRACT COSTS
YEAR ENDED DECEMBER 31, 20X1

EARNINGS FROM CONTRACTS

	<u>Contract Revenues</u>	<u>Contract Costs</u>	<u>Gross Profit</u>
Completed contracts	\$ 2,324,361	\$ 1,860,811	\$ 463,550
Contracts in progress	1,622,501	1,363,276	259,225
Unallocated indirect costs	<u> </u>	<u>81,432</u>	<u>(81,432)</u>
Totals	<u>\$ 3,946,862</u>	<u>\$ 3,305,519</u>	<u>\$ 641,343</u>

CONTRACT COSTS

Materials	\$ 1,896,945
Labor and burden	468,752
Subcontracts	622,432
Equipment	215,375
Depreciation	47,155
Other costs	<u>54,860</u>
Total contract costs	<u>\$ 3,305,519</u>

(See accountants' review report)

XYZ CONSTRUCTION CO., INC.
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
AND OTHER (INCOME) EXPENSE
YEAR ENDED DECEMBER 31, 20X1

GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and benefits	\$ 234,163
Insurance	3,170
Professional fees	16,893
Travel and promotion	7,234
Office expense	12,277
Occupancy	30,475
Depreciation	15,148
Vehicle expense	10,930
Other expense	<u>7,044</u>
Total general and administrative expenses	<u><u>\$ 337,334</u></u>

OTHER (INCOME) EXPENSE

Interest expense	\$ 26,900
Interest income	(2,620)
Other expense	<u>2,700</u>
Other expense - net	<u><u>\$ 26,980</u></u>

(See accountants' review report)

XYZ CONSTRUCTION CO., INC.
SCHEDULE OF CONTRACT REVENUES, COSTS AND PROFITS
YEAR ENDED DECEMBER 31, 20X1

Contract Number	Contract Description	Contract Amount	Estimated Contract Costs	Contract Costs To Date	Percent Complete	Estimated Gross Margin	Gross Margin Recognized		Revenues Earned	Billings To Date	Under Billings	Over Billings
							Prior Years	Current Year				
Completed Contracts												
1012	City of Rio Bravo	\$ 857,750	\$ 778,705	\$ 778,705	100.0%	\$ 79,045	\$ 23,522	\$ 55,523	\$ 857,750	\$ 857,750		
1034	Half Moon Bay	614,896	551,782	551,782	100.0%	63,114	174	62,940	614,896	614,896		
1056	Town of Colima	217,683	203,480	203,480	100.0%	14,203	10,606	3,597	217,683	217,683		
1078	Central Washington Water Agency	1,380,425	1,200,425	1,200,425	100.0%	180,000	52,644	127,356	1,380,425	1,380,425		
1090	Duke Airport	1,670,000	1,390,506	1,390,506	100.0%	198,062	65,360	214,134	1,670,000	1,670,000		
	Total completed contracts	4,740,754	4,124,898	4,124,898		534,424	152,306	463,550	4,740,754	4,740,754		
Contracts In Progress												
1205	RAD Lab	546,925	425,409	357,213	84.0%	121,516	11,125	99,926	459,250	467,900	\$ 8,650	
1210	Central Station	306,116	246,928	216,109	87.5%	59,188	1,305	59,482	267,910	242,500	\$ 25,410	
1215	Bart Extension	1,230,000	1,100,000	234,524	21.3%	130,000		21,716	262,240	278,540		16,300
1220	Railroad Avenue	665,400	595,000	426,000	71.6%	70,400		56,404	476,404	472,500		3,904
1225	Tri-Valley Sanitation	1,090,000	972,000	327,000	33.6%	118,000		35,697	366,697	385,900		19,203
	Total contracts in progress	3,838,441	3,339,337	1,560,846		499,104	12,430	292,225	1,832,501	1,847,340	29,314	44,153
	Total all contracts	\$ 8,579,195	\$ 7,464,235	5,685,744		\$ 1,033,528	\$ 164,736	72,775	6,573,255	\$ 6,588,094	\$ 29,314	\$ 44,153
	Unallocated indirect costs			81,432				34,520				
	Contracts in progress at December 31, 20X0			(2,461,657)					(2,626,393)			
	Current year revenues, costs and profits			\$ 3,305,519				\$ 641,343	\$ 3,946,862			