

EXAMPLE CONTRACTOR, INC.

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION**

Years Ended December 31, 20X4 and 20X3

Preface

Example Contractor, Inc. represents Hammond Group, P.C. suggested financial presentation for construction companies. The presentation illustrates the disclosure requested by members of the surety and banking industries and represents the best features of current reporting and disclosure practices based on generally accepted accounting principles in the United States of America in effect at January 2016.

Example Contractor, Inc. incorporates the disclosure requirements set forth in the AICPA's Statement of Position on Accounting for Performance of Construction Type and Certain Production Type Contracts (SOP) (81-1), and the Audit and Accounting Guide for Construction Contractors, as well as, changes since the issuance of the SOP and Audit Guide. While it is not possible to present illustrations of every set of circumstances that the auditor might encounter in a contractor's financial statement, the example encompasses the most frequently encountered reporting and disclosure requirements for a contractor.

The additional information contains contract schedules completed and in progress, detail of indirect construction costs and selling, administrative and general expenses that are frequently requested by the surety and bankers industries, the primary users of contractor financial statements.

Example Contractor will be revised, from time to time, to incorporate current changes in reporting and accounting techniques as they occur. The most current version of this publication can be obtained by contacting Denton Hammond at (404) 531-9050.

January 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholder
EXAMPLE CONTRACTOR, INC.
Metropolis, U.S.A.

We have audited the accompanying financial statements of Example Contractor, Inc., a corporation, which comprise the balance sheets as of December 31, 20X4 and 20X3, and the related statements of earnings, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respect, the financial position of Example Contractor, Inc. as of December 31, 20X4 and 20X3, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report of Information

Our audits were conducted for the purposes of forming an opinion on the financial statements as a whole. The information in Schedule 1, 1a, 1b, 1c and 2 is presented for purposes of additional analysis of the financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the financial statements. Such information is the responsibility of management and was derived and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Certified Public Accountants
February 24, 20X5

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>20X4</u>	<u>20X3</u>
CURRENT LIABILITIES		
Current maturities of long-term debt (Note E)	\$ 21,215	\$ 5,481
Accounts payable		
Current	941,305	746,153
Retention	663,918	471,064
Accrued payroll, payroll taxes, fringe benefits and amounts withheld from employees	176,951	86,855
Accrued costs on completed contracts (Note A-2)	52,810	-
Billings in excess of costs and estimated earnings on contracts in progress (Notes A-2 and D)	233,633	185,435
Income taxes (Notes A-8, A-9 and F)		
Current	82,430	23,212
Deferred	<u>-</u>	<u>170,800</u>
TOTAL CURRENT LIABILITIES	2,172,262	1,689,000
DEFERRED INCOME TAXES (Notes A-8, A-9 and F)	5,600	-
LONG-TERM DEBT (Note E)	155,339	110,425
COMMITMENTS AND CONTINGENCY (Note G)		
STOCKHOLDERS' EQUITY		
Common stock, par value of \$1.00 a share; authorized 500,000 shares, issued and outstanding 50,000 shares	50,000	50,000
Retained earnings	<u>778,536</u>	<u>668,896</u>
	828,536	718,896
	<u> </u>	<u> </u>
	<u>\$3,161,737</u>	<u>\$2,518,321</u>

See Report of Independent Certified Public Accountants
and Notes to Financial Statements.

EXAMPLE CONTRACTOR, INC.

STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended December 31,

	<u>20X4</u>	<u>20X3</u>
EARNINGS FROM CONSTRUCTION (Notes A-2, D and Schedule 1)		
Revenues earned	\$11,683,190	\$10,748,327
Cost of construction	<u>11,002,186</u>	<u>10,104,083</u>
Gross profit	681,004	644,244
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES (Schedule 2)	<u>518,056</u>	<u>508,877</u>
EARNINGS FROM OPERATIONS	162,948	135,367
OTHER INCOME (EXPENSES)		
Interest income	27,451	22,454
Other income	10,421	12,329
Gain on sale of fixed assets	3,600	254
Interest expense	(37,651)	(42,851)
Other expense	<u>(2,349)</u>	<u>(2,662)</u>
	<u>1,472</u>	<u>(10,476)</u>
EARNINGS BEFORE INCOME TAXES	164,420	124,891
INCOME TAXES (Notes A-8, A-9 and F)	<u>(54,780)</u>	<u>(22,700)</u>
NET EARNINGS	109,640	102,191
RETAINED EARNINGS - beginning of year	<u>668,896</u>	<u>566,705</u>
RETAINED EARNINGS - end of year	<u>\$ 778,536</u>	<u>\$ 668,896</u>

See Report of Independent Certified Public Accountants
and Notes to Financial Statements.

EXAMPLE CONTRACTOR, INC.

STATEMENTS OF CASH FLOWS (DIRECT)

Years ended December 31,

	<u>20X4</u>	<u>20X3</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash collected on contracts	\$ 11,187,574	\$ 10,592,293
Cash paid to suppliers and employees	(10,965,296)	(10,357,310)
Interest received	27,451	12,304
Interest paid	(37,651)	(32,701)
Income taxes paid	(38,862)	(27,387)
Other receipts	10,421	-
Other expenses	(2,349)	-
Cash paid to settle lawsuit for contract claims settlement	<u>-</u>	<u>(26,453)</u>
Net cash provided by operating activities	181,288	160,746
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of construction equipment	3,600	6,500
Down payment on vehicles purchased	(10,000)	-
Purchase of vehicles	<u>(50,998)</u>	<u>(130,760)</u>
Net cash used by investing activities	(57,398)	(124,260)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(6,726)	(72,394)
Proceeds from financing of vehicles	<u>57,374</u>	<u>118,540</u>
Net cash provided (used) by financing activities	<u>50,648</u>	<u>46,146</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	178,126	82,632
CASH AND CASH EQUIVALENTS - beginning of year	<u>329,414</u>	<u>246,782</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 507,540</u>	<u>\$ 329,414</u>

See Report of Independent Certified Public Accountants
and Notes to Financial Statements.

EXAMPLE CONTRACTOR, INC.

STATEMENTS OF CASH FLOWS (DIRECT)

(continued)

Years ended December 31,

	<u>20X4</u>	<u>20X3</u>
RECONCILIATION OF NET EARNINGS TO NET CASH FROM OPERATING ACTIVITIES		
NET EARNINGS	\$ 109,640	\$ 102,191
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation and amortization	31,861	31,040
Gain on sale of equipment	(3,600)	(254)
Deferred taxes	(43,300)	(92,417)
Change in:		
Receivables	(435,792)	(201,034)
Under billings and unbilled amounts	(108,022)	13,466
Prepaid expenses and other	(4,239)	(5,417)
Accounts payable and other liabilities	474,514	250,627
Overbillings and accrued costs	101,008	46,877
Income taxes	<u>59,218</u>	<u>15,667</u>
	<u>71,648</u>	<u>58,555</u>
Net cash from operating activities	<u>\$ 181,288</u>	<u>\$ 160,746</u>

NON-CASH INVESTING AND FINANCING ACTIVITIES:

During the year ended December 31, 20X4, the Company purchased three vehicles for \$70,998 in exchange for \$10,000 in cash and a note payable of \$60,998.

See Report of Independent Certified Public Accountants
and Notes to Financial Statements.

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 20X4 and 20X3

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Example Contractor, Inc. is a general building contractor of commercial and light industrial buildings under long-term contracts. Example Contractor, Inc. operates primarily in the Southeast.

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

1. Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates based in management's knowledge and experience. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Due to their prospective nature, actual results could differ from those estimates.

2. Method of Accounting for Long-Term Construction Contracts

The accompanying financial statements have been prepared using the percentage-of-completion method of accounting and, therefore, take into account the cost and estimated earnings and revenue to date on contracts not yet completed.

The amount of revenue recognized at the financial statement date is that portion of the total contract price that cost incurred to date bears to anticipated final total cost, based on current estimates of cost to complete. The amount of revenue recognized is not related to the progress billings to customers.

This method is used because management considers costs incurred to be the best available measure of progress on these contracts. Due to uncertainties relating to future performance and job conditions as the contracts reach completion, it is at least reasonably possible that the estimated costs and earnings will require revision in future periods.

Contract costs include all direct labor and related payroll benefits, materials, subcontractor costs and indirect cost allocations.

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Method of Accounting for Long-Term Construction Contracts - Continued

As long-term contracts extend over one or more years, revisions in cost and earnings estimated during the course of the work are reflected in the accounting period in which the facts which require the revision become known.

At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is recognized in the financial statements.

The current asset, "Costs and Estimated Earnings in Excess of Billings on Contracts in Progress", represents revenues recognized in excess of amounts billed (underbillings) and the current liability, "Billings in Excess of Costs and Estimated Earnings on Contracts in Progress", represents billings in excess of revenues recognized (overbillings).

Contracts which are substantially complete are considered closed for financial statement purposes. Any accrued billings or costs related to these contracts are carried in the balance sheet as "Unbilled Amounts on Completed Contracts" and "Accrued Costs on Completed Contracts", respectively.

3. Operating Cycle

Assets and liabilities related to long-term contracts are included in current assets and current liabilities in the accompanying balance sheets, as they will be liquidated in the normal course of contract completion, although this may require more than one year.

4. Cash and Cash Equivalents

For purposes of the statements of cash flows, the company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Company maintains the majority of its cash balances at one bank. At December 31, 20X4, these cash balances exceeded this institutions Federal Deposit Insurance Corporation insured limit of \$100,000.

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Contract Receivable

Management believes contract receivable to be fully collectible; therefore, no allowance for accounts has been established. Bad debts are recorded using the direct write-off method.

6. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

7. Property, Equipment and Depreciation

Property and equipment is carried at cost and is being depreciated principally on the straight-line method over the estimated useful lives of the related assets.

8. Income Taxes

Deferred income taxes are provided for temporary differences in reporting income for financial statements and tax purposes arising from differences in the methods of accounting for contracts and depreciation. For tax purposes, during the year ended December 31, 20X3 contracts are reported on the completed contract method and during the year ended December 31, 20X4 contracts are reported on the percentage-of-completion method.

The Company's income tax returns are subject to review and examination by federal and state authorities. The federal and state income tax returns for the years 20X1 to 20X4 are subject to examination by these authorities, generally for three years after they are filed.

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Uncertain Tax Positions

The Company follows the provisions of uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1. Based on management's evaluation, the Company has no position at December 31, 20X4 for which there is uncertainty about deductibility. No interest or penalties have been accrued or changed to expense as of December 31, 20X4.

10. Allocation of Indirect Construction Costs

Indirect construction costs are allocated to contracts as follows:

Project Management - These costs are charged to contracts based on actual time on a per hour basis.

Shop and Yard - These costs are charged to contracts based on a percentage of labor costs incurred by trade.

Construction Equipment - These costs are charged to contracts based on hours used.

Payroll Benefits - These include: payroll taxes, pension, welfare, vacation, group health life and disability insurance, workers' compensation and general liability insurance and are charged to contracts based on actual labor costs incurred.

The difference between actual expenditures for indirect construction costs and the amounts allocated is charged to operations for the current year.

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. Subsequent Events

Management has evaluated subsequent events for possible recognition of disclosure through the date the balance sheets were available to be distributed February 24, 20X5 except those that are disclosed in Note I.

NOTE B - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to credit risk consist of cash, marketable securities and contract receivables.

The Company maintains its cash balances at one bank. The accounts at this banking institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 20X4 and 20X3 and during the years then ended, the Company had cash balances that were in excess of the federally insured limits.

The Company's contract receivables are concentrated with Anywhere County Board of Education, Halls County EMC, Nowhere County Board of Education and Heavenly Suites, Inc. In management's opinion, the concentration of credit risk with respect to contract receivables is considered minimal due to the Company's diverse customer base and the credit evaluations of its customers before contracting with that customer.

Net revenue for the year ended December 31, 20X4 and 20X3 included revenue from these major customers which accounted to 71.69% and 68.94%, respectively, of total revenue of the Company. The receivables from these four customers accounted for 52.34% and 48.93% of the receivables balance at December 31, 20X4 and 20X3.

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE C - RECEIVABLES

Receivables at December 31, consist of the following:

	<u>20X4</u>	<u>20X3</u>
Contract receivables		
Current	\$ 977,673	\$ 985,722
Retention	<u>1,000,608</u>	<u>697,967</u>
	1,978,281	1,683,689
Affiliate receivable (See Note H)	135,200	-
Employee receivables	<u>15,000</u>	<u>9,000</u>
	<u>\$2,128,481</u>	<u>\$1,692,689</u>

Current contract receivables at December 31, are aged as follows:

	<u>20X4</u>	<u>20X3</u>
0-30 days	\$ 829,855	\$ 796,811
31-60 days	94,018	113,631
61-90 days	25,000	57,680
Over 90 days	<u>28,800</u>	<u>17,600</u>
	<u>\$ 977,673</u>	<u>\$ 985,722</u>

Contract receivables at December 31, 20X4 include \$125,431 due from the majority stockholder on a contract in progress. This contract is for \$690,000 of which the Company has reflected revenues of approximately \$455,000 and gross profit of approximately \$28,000 during the year ended December 31, 20X4. The Company collected \$60,000 of this receivable during January 20X5.

In addition, the Company collected approximately \$650,000 of the remaining receivables through February 24, 20X5.

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE D - CONTRACTS IN PROGRESS

Contract amounts, accumulated costs, estimated earnings and the related billings to date on contracts in progress at December 31, 20X4 are as follows (see Schedule 1):

	<u>Contract Amount</u>	<u>Contract Revenue</u>	<u>Contract Cost</u>	<u>Gross Profit</u>
Total construction activity	\$ 22,079,799	\$ 11,683,190	\$ 11,002,186	\$ 681,004
Contracts completed during the year (Schedule 1a)	(13,299,589)	(6,479,484)	(6,155,432)	(324,052)
Overallocated indirect construction cost			3,199	(3,199)
Callbacks and adjustments	<u> </u>	<u> (8,244)</u>	<u> (14,984)</u>	<u> 6,740</u>
Activity during the year on contracts in progress		5,195,462	4,834,969	360,493
Activity in prior years on contracts in progress	<u> </u>	<u> 567,566</u>	<u> 526,417</u>	<u> 41,149</u>
Contracts in progress December 31, 20X4 (Schedule 1b)	<u>\$ 8,780,210</u>	5,763,028	<u>\$ 5,361,386</u>	<u>\$ 401,642</u>
Less progress billings to December 31, 20X4		<u>(5,823,650)</u>		
		<u>\$ (60,622)</u>		

Included in the accompanying balance sheets are the following captions:

Costs and estimated earnings in excess of billings on contracts in progress	\$ 173,011
Billings in excess of costs and estimated earnings on contracts in progress	<u>(233,633)</u>
	<u>\$ (60,622)</u>

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE D - CONTRACTS IN PROGRESS - Continued

Contract amounts, accumulated costs, estimated earnings and the related billings to date on contracts in progress at December 31, 20X3, are as follows (see Schedule 1):

	<u>Contract Amount</u>	<u>Contract Revenue</u>	<u>Contract Cost</u>	<u>Gross Profit</u>
Total construction activity	\$ 18,030,382	\$ 10,748,327	\$ 10,104,083	\$ 644,244
Contracts completed during the year	(8,481,763)	(3,354,892)	(3,156,282)	(198,610)
Overallocated indirect construction cost			1,268	(1,268)
Callbacks and adjustments	<u> </u>	<u>(5,764)</u>	<u>(14,113)</u>	<u>8,349</u>
Activity during the year on contracts in progress		7,387,671	6,934,956	452,715
Activity in prior years on contracts in progress	<u> </u>	<u>178,451</u>	<u>166,381</u>	<u>12,070</u>
Contracts in progress December 31, 20X3	<u>\$ 9,548,619</u>	7,566,122	<u>\$ 7,101,337</u>	<u>\$ 464,785</u>
Less progress billings to December 31, 20X3		<u>(7,606,101)</u>		
		<u>\$ (39,979)</u>		

Included in the accompanying balance sheets are the following captions:

Costs and estimated earnings in excess of billings on contracts in progress	\$ 145,456
Billings in excess of costs and estimated earnings on contracts in progress	<u>(185,435)</u>
	<u>\$ (39,979)</u>

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE E - LONG-TERM DEBT AND LINE OF CREDIT

Long-term debt at December 31, consists of the following:

	<u>20X4</u>	<u>20X3</u>
Notes payable to bank, collateralized by vehicles with a carrying value of \$69,815, due in monthly installments of \$1,582 including interest of 6.0% through November, 20X8	\$ 56,129	\$ -
Mortgage note payable to bank, collateralized by land and building, with a carrying value of \$134,600 due in monthly installments \$953 including interest at 5.25% through June 20Y8	<u>120,425</u>	<u>115,906</u>
	176,554	115,906
Less current maturities	<u>(21,215)</u>	<u>(5,481)</u>
Long-term debt	<u>\$ 155,339</u>	<u>\$ 110,425</u>

Aggregate maturities of long-term debt following December 31, 20X4 are as follows:

20X5	\$ 21,215
20X6	22,478
20X7	23,816
20X8	23,652
20X9	7,122
After 20X9	<u>78,271</u>
	<u>\$ 176,554</u>

The Company has available an unsecured line of credit with a bank for \$1,000,000. At December 31, 20X4 and 20X3, the line of credit was unused. Under the terms of this agreement, interest is charged at the prime rate plus 1%. This agreement is renewable annually on February 28.

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE F - INCOME TAXES

Deferred tax assets and liabilities represent the tax effects, based on current tax law, of differences in reporting income for financial statements and tax purposes arising from net operating loss carryforwards, alternative minimum tax credits, long-term contracts and depreciation.

During 20X4, the company was required to change its method of reporting long-term contracts from the completed contract method to the percentage-of-completion method under Internal Revenue Code Section 460.

The provision for income taxes as of December 31, consists of:

	<u>20X4</u>	<u>20X3</u>
Current income taxes expenses:		
Federal	\$ 80,580	\$ 22,912
State	<u>19,100</u>	<u>300</u>
	99,680	23,212
Deferred income tax expenses:		
Federal	109,900	30,600
State	<u>16,000</u>	<u>5,600</u>
	125,900	36,200
Deferred income tax (benefits):		
Federal	(145,200)	(32,612)
State	<u>(25,600)</u>	<u>(4,100)</u>
	<u>(170,800)</u>	<u>(36,712)</u>
	<u>\$ 54,780</u>	<u>\$ 22,700</u>

At December 31, 20X3 for Federal income tax purposes, the Company had alternative minimum tax credit carryforward totaling \$22,912 and net operating loss carryforwards of \$ 282,076, which were utilized in the Federal 20X4 income tax return when the Company was required to change from the completed contract method to the percentage-of-completion methods. At December 31, 20X3 for state tax purposes, the Company had \$282,076 of net operating loss carryforwards, which were utilized in the state 20X4 income tax return.

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE F - INCOME TAXES - Continued

At December 31, 20X4 and 20X3, the deferred tax assets and deferred tax liabilities in the accompanying balance sheet include the following:

	<u>20X4</u>	<u>20X3</u>
Deferred Tax Assets:		
Federal	\$ -	\$ 107,100
State	-	<u>14,800</u>
	<u>\$ -</u>	<u>\$ 121,900</u>
Current deferred tax liabilities:		
Federal	-	145,200
State	-	<u>25,600</u>
	<u>\$ -</u>	<u>\$ 170,800</u>
Long-term deferred liabilities:		
Federal	4,000	-
State	<u>1,600</u>	-
	<u>\$ 5,600</u>	<u>\$ -</u>

NOTE G - COMMITMENTS AND CONTINGENCIES

The Company is involved in litigation related to the failure of a subcontractor to pay its suppliers the claim totaling approximately \$310,000. In the opinion of management and counsel, the outcome of this claim will not have a material effect on the financial position of the Company.

During 20X3, the Company settled a law suite with a subcontractor for \$26,453.

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE H – VARIABLE INTEREST ENTITY AND RELATED PARTY TRANSACTIONS

In March 2014 the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-07. *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*, which allows, but no longer requires, nonpublic companies to apply variable interest entity guidance to certain common control leasing arrangements. The Company's relationship with Example Equipment Company (EEC) may qualify for inclusion in the Company's financial statements. The management of the Company is evaluating its involvement with this entity and it is likely that the Company will be required to consolidate EEC in its December 31, 20X5 financial statements.

The Company will rent construction equipment and provides accounting and administrative services to EEC, which is owned 100% by the owner and president of the Company. EEC was incorporated in the state of Georgia in late 20X4 and will begin operations on January 1, 20X5.

For the year ended December 31, 20X4 and 20X3 the construction equipment was rented directly from the owner and president and rental expense amounted to \$140,250 and \$126,000, respectively. At December 31, 20X4, the Company owed \$35,200 and at December 31, 20X3 the Company owed \$10,500 to the owner and president of the Company.

On January 1, 20X5, the Company signed a new lease agreement for its office in Construction Equipment with EEC. The lease term is for 24 months commencing on January 1, 20X5 and expiring on December 31, 20X6.

The future minimum lease payment under the lease for the next year is as follows:

<u>December 31,</u>	
20X5	\$ 150,000
20X6	<u>160,000</u>
	<u>\$ 310,000</u>

EXAMPLE CONTRACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

Years ended December 31, 20X4 and 20X3

NOTE I - BACKLOG

Following is a reconciliation of the approximate backlog of signed contracts as of December 31,

	<u>20X4</u>	<u>20X3</u>
Balance as of January 1,	\$ 4,300,000	\$ 4,800,000
New contracts and change orders during the year	<u>10,500,000</u>	<u>10,200,000</u>
	14,800,000	15,000,000
Less contracts completed	<u>(11,700,000)</u>	<u>(10,700,000)</u>
Balance December 31,	<u>\$ 3,100,000</u>	<u>\$ 4,300,000</u>

In addition, between January 1, 20X5 and February 24, 20X5, the Company entered into contracts approximating \$3,400,000.

ADDITIONAL INFORMATION

EXAMPLE CONTRACTOR, INC.

SUMMARY OF EARNINGS FROM CONSTRUCTIONYear ended December 31, 20X4

	<u>Revenue Earned</u>	<u>Cost of Construction</u>	<u>Gross Profit</u>	<u>GP %</u>
Contracts Completed (Schedule 1a)	\$ 6,479,484	\$ 6,155,432	\$ 324,052	5.00 %
Contracts in Progress (Schedule 1b)	5,195,462	4,834,969	360,493	6.94 %
Over Allocated indirect Construction Cost (Schedule 1c)		(3,199)	3,199	
Callbacks and adjustments on prior closed contracts	<u>8,244</u>	<u>14,984</u>	<u>(6,740)</u>	
	<u>\$11,683,190</u>	<u>\$11,002,186</u>	<u>\$ 681,004</u>	<u>5.83 %</u>

Year ended December 31, 20X3

	<u>Revenue Earned</u>	<u>Cost of Construction</u>	<u>Gross Profit</u>	<u>GP %</u>
Contracts Completed	\$ 3,354,892	\$ 3,156,282	\$ 198,610	5.92 %
Contracts in Progress	7,387,671	6,934,956	452,715	6.13 %
Over Allocated indirect Construction Cost (Schedule 1c)		(1,268)	1,268	
Callbacks and adjustments on prior closed contracts	<u>5,764</u>	<u>14,113</u>	<u>(8,349)</u>	
	<u>\$10,748,327</u>	<u>\$10,104,083</u>	<u>\$ 644,244</u>	<u>5.99 %</u>

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EXAMPLE CONTRACTOR, INC.
 COMPLETED CONTRACTS
 For the year ended December 31, 20X4

Contract	Total Contracts						Prior to January 1, 20X4				For the year ended December 31, 20X4			
	Final Contract	Unbilled Contract	Final Cost	Accrued Costs	Gross Profit	GP %	Revenue Earned	Cost of Construction	Gross Profit	GP %	Revenue Earned	Costs of Construction	Gross Profit	GP %
X307	\$ 1,121,344	\$	\$ 1,046,139	\$	\$ 75,205	6.71%	\$ 1,050,083	\$ 975,782	\$ 74,301	7.08%	\$ 71,261	\$ 70,357	\$ 904	1.27%
X308	1,675,000		1,573,141		101,859	6.08%	1,263,788	1,185,621	78,167	6.19%	411,213	387,520	23,693	5.76%
X309	1,698,000		1,752,378		(54,378)	-3.20%	1,395,201	1,357,592	37,609	2.70%	302,799	394,786	(91,987)	-30.38%
X310	2,346,770		2,199,854		146,916	6.26%	1,795,020	1,675,763	119,257	6.64%	551,750	524,091	27,659	5.01%
X312	987,600		920,186		67,414	6.83%	848,310	787,864	60,446	7.13%	139,290	132,322	6,968	5.00%
X401	1,678,450	21,344	1,576,322	15,838	102,128	6.08%	144,292	134,826	9,466	6.56%	1,534,158	1,441,496	92,662	6.04%
X404	2,654,000	33,446	2,483,709	22,643	170,291	6.42%	63,023	58,765	4,258	6.76%	2,590,977	2,424,944	166,033	6.41%
Jobs Under \$100,000	1,138,425	25,677	1,012,242	14,329	126,183	11.08%	260,389	232,325	28,064	10.78%	878,036	779,917	98,119	11.17%
	<u>\$ 13,299,589</u>	<u>\$ 80,467</u>	<u>\$ 12,563,971</u>	<u>\$ 52,810</u>	<u>\$ 735,618</u>	<u>5.53%</u>	<u>\$ 6,820,106</u>	<u>\$ 6,408,538</u>	<u>\$ 411,568</u>	<u>6.03%</u>	<u>\$ 6,479,484</u>	<u>\$ 6,155,433</u>	<u>\$ 324,051</u>	<u>5.00%</u>
	Schedule 1													
	Note D													

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EXAMPLE CONTRACTOR, INC.
 CONTRACTS IN PROGRESS
 For the year ended December 31, 20X4

Contract	Contract to Date							For the year ended December 31, 20X4			Backlog					
	Contract Amount	Estimated Gross Profit	Percent Complete	Earned Revenue	Cost to Date	Gross Profit	GP %	Progress Billings	Under Billings	(Over) Billings	Revenue Earned	Cost of Construction	Gross Profit	Revenue Remaining	Cost to Complete	Estimated Gross Profit
X311	\$ 2,733,300	\$ 164,041	\$ 87.0%	\$ 2,377,180	\$ 2,234,512	\$ 142,668	6.00%	\$ 2,525,800	\$	\$ (148,620)	\$ 1,809,614	\$ 1,708,095	\$ 101,519	\$ 356,120	\$ 334,747	\$ 21,373
X403	1,375,500	83,152	88.6%	1,218,207	1,144,564	73,643	6.05%	1,219,500		(1,293)	1,218,207	1,144,564	73,643	157,293	147,784	9,509
X405	690,000	43,169	65.9%	454,597	426,155	28,442	6.26%	492,500		(37,903)	454,597	426,155	28,442	235,403	220,676	14,727
X406	2,245,630	135,149	22.9%	514,734	483,756	30,978	6.02%	366,900	147,834		514,734	483,756	30,978	1,730,896	1,626,725	104,171
X408	322,500	24,873	59.0%	190,323	175,644	14,679	7.71%	195,500		(5,177)	190,323	175,644	14,679	132,177	121,983	10,194
Jobs Under \$100,000	1,413,280	155,957	71.3%	1,007,987	896,755	111,232	11.04%	1,023,450	25,177	(40,640)	1,007,987	896,755	111,232	405,293	360,568	44,725
	<u>\$ 8,780,210</u>	<u>\$ 606,341</u>	<u>\$ 65.6%</u>	<u>\$ 5,763,028</u>	<u>\$ 5,361,386</u>	<u>\$ 401,642</u>	<u>6.97%</u>	<u>\$ 5,823,650</u>	<u>\$ 173,011</u>	<u>\$ (233,633)</u>	<u>\$ 5,195,462</u>	<u>\$ 4,834,969</u>	<u>\$ 360,493</u>	<u>\$ 3,017,182</u>	<u>\$ 2,812,483</u>	<u>\$ 204,699</u>
	Note D			Note D				Note D	Note D		Schedule 1					
											Note D					
Work contracted for after December 31, 20x5 but before February 24, 20X5																
X501	\$ 1,455,656	87,339											\$ 1,455,656	\$ 1,368,317	\$ 87,339	
X502	877,650	70,212											877,650	807,438	70,212	
X503	89,775	7,182											89,775	82,593	7,182	
X506	966,750	58,005											966,750	908,745	58,005	
	<u>\$ 3,389,831</u>	<u>222,738</u>											<u>\$ 3,389,831</u>	<u>\$ 3,167,093</u>	<u>\$ 222,738</u>	

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EXAMPLE CONTRACTOR, INC.

INDIRECT CONSTRUCTION COSTS

Years ended December 31,

	<u>20X4</u>	<u>20X3</u>
PROJECT MANAGEMENT COSTS		
Salaries and benefits	\$ 316,087	\$ 297,415
Computer supplies	13,410	12,609
Travel and auto expense	12,690	11,951
Other costs	<u>3,900</u>	<u>4,107</u>
	346,087	326,082
Project management allocated	<u>(329,218)</u>	<u>(296,341)</u>
Under allocated project management cost	<u>16,869</u>	<u>29,741</u>
SHOP AND YARD COST		
Labor and benefits	32,916	29,610
Small tools and supplies	16,408	15,290
Repairs and maintenance	2,916	2,804
Insurance	2,800	2,600
Personal property taxes	4,755	4,450
Other	<u>2,112</u>	<u>2,260</u>
	61,907	57,014
Shop and yard allocated	<u>(64,099)</u>	<u>(61,249)</u>
Over allocated shop and yard cost	(2,192)	(4,235)

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EXAMPLE CONTRACTOR, INC.

INDIRECT CONSTRUCTION COSTS

(continued)

Years ended December 31,

	<u>20X4</u>	<u>20X3</u>
CONSTRUCTION EQUIPMENT COST		
Repairs and maintenance	\$ 9,410	\$ 8,255
Equipment rental	140,250	126,000
Fuel	4,210	4,066
Insurance	5,901	5,285
Taxes & licenses - other	<u>2,210</u>	<u>2,086</u>
	161,981	145,692
Construction equipment and vehicles allocated	<u>(152,651)</u>	<u>(139,060)</u>
Under allocated construction equipment	9,330	6,632
PAYROLL BENEFITS		
FICA	139,061	135,608
Federal U.C.	8,216	8,044
State U.C.	51,400	49,460
Workers' compensation and liability insurance	208,903	197,416
Association Fees	8,916	8,466
Pension	132,408	129,255
Health and welfare	139,212	130,066
Training and other	31,680	29,400
Other	<u>10,855</u>	<u>9,722</u>
	730,651	697,437
Payroll benefits allocated	<u>(757,857)</u>	<u>(730,843)</u>
Over allocated payroll benefits	<u>(27,206)</u>	<u>(33,406)</u>
Net over allocated indirect construction costs	<u>\$ (3,199)</u>	<u>\$ (1,268)</u>

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EXAMPLE CONTRACTOR, INC.

SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

Years ended December 31,

	<u>20X4</u>	<u>20X3</u>
SELLING EXPENSES		
Estimating salaries and benefits	\$ 80,600	\$ 74,200
Advertising and promotion	26,577	23,218
Dues, subscriptions and association fees	7,689	6,114
Other selling expense	<u>4,216</u>	<u>4,409</u>
	<u>119,082</u>	<u>107,941</u>
ADMINISTRATIVE AND GENERAL EXPENSES		
Administrative, office salaries and benefits	326,562	326,732
Office supplies and expense	19,608	18,955
Vehicle and travel expense	13,122	12,915
Telephone	3,287	3,066
Data Processing	18,212	18,009
Professional services	25,800	24,900
Insurance	7,600	7,200
Depreciation	32,980	31,040
Miscellaneous	7,003	6,119
Accounting and administrative costs charged an affiliate	<u>(55,200)</u>	<u>(48,000)</u>
	<u>398,974</u>	<u>400,936</u>
	<u>\$ 518,056</u>	<u>\$ 508,877</u>

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