

SAMPLE CONSTRUCTION COMPANY

FINANCIAL REPORT

December 31, 2003

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CPA LETTERHEAD

To the Board of Directors
Sample Construction Company
Any Town, USA

We have reviewed the accompanying balance sheet of Sample Construction Company as of December 31, 2003, and the related statements of income, 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 Sample Construction Company.

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 of the United States.

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 of the United States. The information included in the accompanying Schedules is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

March 13, 2004

CPA City, State

SAMPLE CONSTRUCTION COMPANY

**BALANCE SHEET
December 31, 2003**

ASSETS

CURRENT ASSETS

Cash	\$ 385,540
Contracts receivable, net of allowance for doubtful accounts	1,172,619
Costs and estimated earnings in excess of billings on uncompleted contracts	189,441
Officer loan receivable and employee advances	1,200
Prepaid insurance	<u>700</u>

Total current assets 1,749,500

PROPERTY AND EQUIPMENT, at cost

Equipment	255,026
Furniture and fixtures	60,235
Vehicles	105,364
Leasehold improvements	<u>7,612</u>

Less accumulated depreciation 428,237
313,598

114,639

\$ 1,864,139

SAMPLE CONSTRUCTION COMPANY

**BALANCE SHEET
December 31, 2003**

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 839,549
Notes payable, current portion	21,097
Capital leases payable, current portion	23,448
Billings in excess of costs and estimated earnings on uncompleted contracts	67,425
Income taxes payable	9,802
Bank line of credit payable	<u>199,759</u>
Total current liabilities	<u>1,161,080</u>

LONG-TERM DEBT

Notes payable, noncurrent portion	43,500
Capital leases payable, noncurrent portion	<u>70,146</u>
	<u>113,646</u>

OTHER LIABILITIES

Deferred taxes	<u>62,720</u>
	<u>62,720</u>

STOCKHOLDER'S EQUITY

Common stock, \$1 par value; 1,000 shares authorized, 100 shares issued, and outstanding	100
Retained earnings	<u>526,593</u>
	<u>526,693</u>
	<u>\$ 1,864,139</u>

SEE ACCOUNTANTS' REVIEW REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE CONSTRUCTION COMPANY

STATEMENT OF INCOME
For the Year Ended December 31, 2003

Earned revenue	\$ 7,511,684
Cost of earned revenue	<u>5,831,258</u>
Gross profit	1,680,426
General and administrative expenses	<u>1,316,759</u>
Operating income	363,667
Financial income and expenses, net including interest expense of \$31,735	<u>36,590</u>
Income before taxes on income	327,077
Federal and state income tax expense	<u>137,372</u>
Net income	<u><u>\$ 189,705</u></u>

SEE ACCOUNTANTS' REVIEW REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE CONSTRUCTION COMPANY

**STATEMENT OF RETAINED EARNINGS
For the Year Ended December 31, 2003**

Balance, beginning	\$ 336,888
Net income	<u>189,705</u>
Balance, ending	<u><u>\$ 526,593</u></u>

SEE ACCOUNTANTS' REVIEW REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE CONSTRUCTION COMPANY

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2003

Cash flows from operating activities:

Net income	\$ 189,705
Adjustments to reconcile net income to net cash provided by operations:	
Depreciation	107,815
(Increase) decrease in:	
Contracts receivable	(372,308)
Costs and estimated earnings in excess of billings on uncompleted contracts	(189,441)
Officer loan receivable and employee advances	10,428
Prepaid insurance	4,867
(Decrease) increase in:	
Accounts payable and accrued expenses	363,064
Income taxes payable	4,802
Deferred taxes payable	50,720
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>67,425</u>
Net cash provided by operating activities	<u>237,077</u>

Cash flows from investing activities:

Purchase of equipment and vehicles	<u>(4,071)</u>
Net cash used in investing activities	<u>(4,071)</u>

Cash flows from financing activities:

Proceeds from notes payable	21,097
Proceeds from line of credit	164,231
Principal payments on capital leases	(63,306)
Principal payments on long term debt	<u>(5,482)</u>
Net cash provided by financing activities	<u>116,540</u>

Net increase in cash	349,546
Cash, beginning of year	<u>35,994</u>
Cash, end of year	<u><u>\$ 385,540</u></u>

SEE ACCOUNTANTS' REVIEW REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE CONSTRUCTION COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1 Summary of significant accounting policies

The accounting policies relative to the carrying value of property and equipment indicated in the captions on the balance sheet. Other significant accounting policies are as follows:

Nature of operations

Sample Construction Company is a general contractor engaged in the construction of commercial buildings and residential apartments units for individuals, builders and developers in 1. The company has offices in

Method of accounting

Assets, liabilities, income and expenses are reported using the accrual basis of accounting, whereby income is recorded when earned and expenses as incurred.

Leases

Leases that meet certain criteria are classified as capital leases. Assets and liabilities are recorded at amounts equal to the fair value of the leased properties at the beginning of their respective lease terms. These assets are depreciated over their estimated useful lives. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases. Leases that do not meet such criteria are classified as operating leases and related rentals are charged to expenses as incurred.

Depreciation

Depreciation expense is calculated by using the straight-line method for financial reporting purposes and the accelerated cost recovery method for federal income tax purposes based on the estimated useful lives of the assets.

Equipment	5 years
Furniture and fixtures	7 years
Vehicles	5 years
Leasehold improvements	10 years

Depreciation expense totaled \$107,815 for the year ended December 31, 2003.

SEE ACCOUNTANTS' REVIEW REPORT

SAMPLE CONSTRUCTION COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1 Summary of significant accounting policies (continued)

Recognition of construction revenue

Revenue from construction contracts is recognized using the percentage of completion method. The percentage of completion is determined by relating costs expended to date to the estimated total cost of the contract, as estimated by the company's personnel and management. The percentage-of-completion is applied to the total contract price to arrive at the revenue earned for the period. Changes in job performance, condition, estimated profitability and contract settlements may result in revision to costs and income and are recognized in the period in which the revision 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.

Costs in excess of amounts billed are classified as current assets under costs in excess of billings on uncompleted contracts. Billings in excess of costs are classified under current liabilities as billings in excess of costs on uncompleted contracts. Contract retentions are included in contract receivables.

Contract costs

Contract costs include all direct materials, labor, subcontract costs, payroll taxes, insurance and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Selling and general and administrative costs are charged to expenses as incurred. Provisions for estimated losses on uncompleted contracts are made in the period such losses are determined.

Statement of cash flows

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

SEE ACCOUNTANTS' REVIEW REPORT

SAMPLE CONSTRUCTION COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 1 Summary of significant accounting policies (continued)

Income taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes, which requires 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 basis 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. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Use of estimates

The preparation of financial statements in conformity with general 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of credit risk

The Company's cash is deposited in two financial institutions. Cash accounts at banks are insured by the FDIC for up to \$100,000. Amounts in excess of insured limits were approximately \$185,540 at December 31, 2003.

Note 2 Costs and estimated earnings on uncompleted contracts

Costs incurred on uncompleted contracts	\$ 2,988,594
Estimated earnings	928,175
Less: billings to date	<u>3,794,753</u>
	<u>\$ 122,016</u>

SEE ACCOUNTANTS' REVIEW REPORT

SAMPLE CONSTRUCTION COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 2 Costs and estimated earnings on uncompleted contracts (continued)

Included in the accompanying balance sheet under the following captions:

Costs and estimated earnings of billings on uncompleted contracts	\$ 189,441
Billings in excess of costs and estimated Earnings on uncompleted contracts	<u>(67,425)</u>
	<u>\$ 122,016</u>

Note 3 Contracts receivable

At December 31, 2003, contracts receivable consists of the following:

Completed contracts	\$ 534,235
Uncompleted contracts	445,429
Retainage	<u>212,955</u>
	1,192,619
Less: allowance for doubtful accounts	<u>20,000</u>
	<u>\$ 1,172,619</u>

Retainage is due upon completion of contracts. Based on estimated contract completion dates, the 2003 retainage will be collected as follows: 2004—\$144,500; 2005—\$68,455.

Note 4 Related parties

During the year ended December 31, 2003, the Company made advances of \$63,852 and the president made loan repayments of \$62,652. No interest was accrued on these loans. The balance owed at December 31, 2003 was \$1,200.

SEE ACCOUNTANTS' REVIEW REPORT

SAMPLE CONSTRUCTION COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2003

Note 5 **Notes payable**

Notes payable secured by construction equipment at December 31, 2003 consist of the following:

Secured construction equipment installment note payable to Any Co. payable in monthly installments of \$602 including interest at 9.00%, matures December 2008	\$ 29,000
Secured construction equipment installment note payable to Any Co. payable in monthly installments of \$574 including interest of 9.15%, matures December 2005	12,535
Secured construction equipment installment note payable in monthly installments of \$574 including interest of 7.55%, matures December 2006	18,449
Secured construction equipment installment note payable to Ford Motor Credit payable in monthly installments of \$400 including interest of 7.5%, matures December 2004	<u>4,613</u>
	64,597
Less: notes payable, current portion	<u>21,097</u>
Notes payable, noncurrent portion	<u>\$ 43,500</u>

Aggregate maturities of principal payments required under long-term debt obligations for each of the succeeding five years are as follows:

Year ended December 31,

2004	\$ 21,097
2005	17,951
2006	12,372
2007	6,293
2008 and beyond	6,884

SEE ACCOUNTANTS' REVIEW REPORT

SAMPLE CONSTRUCTION COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 6 Capital leases

The company has two leases for machinery and equipment that meet the criteria for capital leases. The first lease expires in December 2007, and is payable in monthly installments of \$1,060. The second lease expires in December 2007, and is payable in monthly installments of \$1,269.

The following is an analysis of leased property under capital leases at December 31, 2003:

Machinery, equipment, and office furniture	\$ 114,832
Less accumulated depreciation	<u>22,966</u>
	<u>\$ 91,866</u>

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of December 31, 2003:

Year ending December 31,	
2004	\$ 27,948
2005	27,948
2006	27,948
2007	27,948
2008 and beyond	--
Net minimum lease payments	\$ 111,792
Less amount representing interest	<u>18,198</u>
Present value of net minimum lease payments	93,594
Less current portion	<u>23,448</u>
Capital leases payable, non-current portion	<u>\$ 70,146</u>

Note 7 Bank line of credit payable

The company has a \$250,000 line of credit from ABC Bank. At December 31, 2003, the company owed \$199,759 on this line of credit, which accrues interest of 6.5%. The shareholder personally guarantees the line of credit.

Note 8 Cash flow statement disclosure

Cash paid during the year ended December 31, 2003 for:

Interest expense	\$ 31,735
Income taxes	81,850

SEE ACCOUNTANTS' REVIEW REPORT

SAMPLE CONSTRUCTION COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 9 Major customers

One customer, Sample Customer, accounted for 28% of the Company's income on twelve contracts. Unpaid receivables totaled \$352,764 at December 31, 2003 on these contracts.

Note 10 Employee benefit plans

In 1995, the corporation adopted a profit-sharing plan covering substantially all of its' employees. An independent party has been selected to administer and act as trustee for the plan. The plan is a discretionary defined contribution plan, with all contribution amounts (if any) determined by management. Contributions to the plan were \$33,785 for the year ended December 31, 2003. The fair market value of the plan assets as of December 31, 2003 was \$201,455.

Note 11 Surety bonds

The Company, as a condition for entering into construction contracts, had outstanding surety bonds approximating \$1,200,000 as of December 31, 2003. The bonds are collateralized by contract receivables and personally guaranteed by the company's majority stockholder.

Note 12 Backlog

The following schedule summarizes changes in backlog on contracts during the year ended December 31, 2003. Backlog represents the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress at year end and from contractual agreements on which work has not yet begun.

Backlog balance at December 31, 2002	\$ 5,242,612
New contracts during the year	8,644,331
Contract adjustments	<u>293,000</u>
	14,179,943
Less contract revenue earned during the year	<u>7,511,684</u>
Backlog balance at December 31, 2003	<u>\$ 6,668,259</u>

The Company also entered into additional contracts with estimated revenues of \$1,192,812, between January 1, 2004 and March 13, 2004.

SEE ACCOUNTANTS' REVIEW REPORT

SAMPLE CONSTRUCTION COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 13 Operating lease agreements

The Company rents substantially all of its equipment under month-to-month operating leases. In addition, the Company leases warehouse space from its majority shareholder under a non-cancelable operating lease. The lease is for three years and has an option to renew under the same terms for an additional three years. Total rent expense under all operating leases was \$52,000 during 2003. Minimum rents due under the warehouse lease are as follows:

Year ending December 31:		
2004	\$	52,000
2005		52,000
2005		26,000
2006 and beyond		<u> --</u>
	<u>\$</u>	<u>130,000</u>

Note 14 Provision for income taxes

The following is a reconciliation of the federal statutory income tax amount on income to the provision for income taxes:

	<u>2003</u>
Federal statutory income tax at 35% for 2003	\$ 114,296
State tax cost, net of federal tax benefit	14,984
Non-deductible expenses	6,347
Prior period tax accrual adjustments	<u>1,745</u>
Total Provision for Income Taxes	<u>\$ 137,372</u>
Current	\$ 100,652
Deferred	<u>36,720</u>
	<u>\$ 137,372</u>
Deferred tax liabilities:	
Property and equipment	\$ 10,514
Contract recognition	<u>52,206</u>
	<u>\$ 62,720</u>

SEE ACCOUNTANTS' REVIEW REPORT

SAMPLE CONSTRUCTION COMPANY

**INCOME STATEMENT DETAIL
For the Year Ended December 31, 2003**

COST OF EARNED REVENUE

Direct labor	\$ 1,988,883
Job materials	1,663,842
Subcontractors	1,027,553
Cost allocated to jobs	378,264
Equipment rental	123,187
Tools and machinery	102,305
Equipment repairs	96,542
Landscaping	75,827
Bond expense	75,116
Building supplies	62,385
Temporary labor	53,542
Workers compensation	40,235
Gas	39,036
Building repairs	38,754
Cleaning	25,720
Sanitation	15,352
Reimbursed expenses	14,514
Commissions	4,863
Propane	4,419
Tolls	684
Towing	235
	<hr/>
	\$ 5,831,258

SEE ACCOUNTANTS' REVIEW REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE CONSTRUCTION COMPANY

**INCOME STATEMENT DETAIL
For the Year Ended December 31, 2003**

GENERAL AND ADMINISTRATIVE EXPENSES

Officer's salary	\$ 425,732
Salaries, office	325,842
Payroll tax	248,132
Depreciation	107,815
Insurance	82,421
Office expense	63,825
Advertising	63,627
Professional fees	53,651
Rent	52,756
Automobile	49,052
Licenses and permits	43,019
Profit sharing	33,785
Travel and entertainment	30,339
Telephone	28,608
Office supplies	24,198
Dues and subscriptions	12,647
Contributions	8,005
Bad debt	6,574
Software expense	5,842
Business gifts	5,071
Employee training	4,450
Postage and delivery	3,738
Miscellaneous	3,017
Printing and reproduction	2,878
Utilities	2,727
Security services	2,717
Business promotion	2,209
Service charges	1,734
Violations	612
Costs allocated to jobs	<u>(378,264)</u>
	<u><u>\$ 1,316,759</u></u>

SEE ACCOUNTANTS' REVIEW REPORT

The Notes to Financial Statements are an integral part of this statement

SAMPLE CONSTRUCTION COMPANY

COMPLETED CONSTRUCTION CONTRACTS

For the Year Ended December 31, 2003

JOB DESCRIPTION	TOTAL				YEAR ENDED DECEMBER 31, 2003			
	Earned revenue	Cost of earned revenue	Profit (loss)		Earned revenue	Cost of earned revenue	Profit (loss)	
Build Incorporated	\$ 751,000	\$ 563,250	\$ 187,750		\$ 751,000	\$ 563,250	\$ 187,750	
Express Incorporated	1,161,260	952,234	209,026		244,662	200,622	44,040	
Construction Company	820,020	516,612	303,408		410,140	277,886	132,254	
On Board Systems	514,872	329,518	185,354		359,792	260,266	99,526	
On Guard Securities	351,300	259,962	91,338		262,098	199,452	62,646	
DataNet	178,250	133,768	44,482		178,250	133,768	44,482	
USA Builders Incorporated	620,008	446,406	173,602		360,008	331,206	28,802	
Capstone Unlimited	656,256	525,004	131,252		476,110	409,304	66,806	
Builder's Delight	336,024	342,744	(6,720)		76,448	77,976	(1,528)	
Sampson and Sampson	506,660	425,594	81,066		261,660	182,794	78,866	
Frye Contractors	378,000	283,500	94,500		249,324	186,994	62,330	
Gutters-R-Us Company	206,002	152,456	53,546		47,996	35,518	12,478	
MidAtlantic Heating	476,036	371,308	104,728		258,144	191,626	66,518	
Super Coil Unlimited	441,030	357,234	83,796		226,659	183,594	43,065	
TOTAL	\$ 7,396,718	\$ 5,659,590	\$ 1,737,128		\$ 4,162,291	\$ 3,234,256	\$ 928,035	
Uncompleted contracts	\$ 3,916,770	\$ 2,988,594	\$ 928,176		\$ 3,349,393	\$ 2,597,002	\$ 752,391	
	\$ 11,313,488	\$ 8,648,184	\$ 2,665,304		\$ 7,511,684	\$ 5,831,258	\$ 1,680,426	

SEE ACCOUNTANTS' REVIEW REPORT

SAMPLE CONSTRUCTION COMPANY
UNCOMPLETED CONSTRUCTION CONTRACTS
For the Year Ended December 31, 2003

JOB DESCRIPTION	TOTAL			YEAR ENDED DECEMBER 31, 2003		
	Earned revenue	Cost of earned revenue	Profit (loss)	Earned revenue	Cost of earned revenue	Profit (loss)
Highland Hospital	\$ 589,234	\$ 441,110	\$ 148,124	\$ 312,668	\$ 265,766	\$ 46,902
Towncenter Apartments	698,421	521,956	176,465	407,610	305,708	101,902
Lou's Renovation	717,330	515,412	201,918	717,330	515,412	201,918
Resources Unlimited	267,159	218,348	48,811	267,159	218,348	48,811
Crestwood Condominiums	326,879	256,180	70,699	326,879	256,180	70,699
Capital Construction	525,136	370,350	154,786	525,136	370,350	154,786
Lakeview	534,052	436,234	97,818	534,052	436,234	97,818
Rinehart Associates	258,559	229,004	29,555	258,559	229,004	29,555
TOTAL	\$ 3,916,770	\$ 2,988,594	\$ 928,176	\$ 3,349,393	\$ 2,597,002	\$ 752,391

SEE ACCOUNTANTS' REVIEW REPORT

SAMPLE CONSTRUCTION COMPANY

UNCOMPLETED CONSTRUCTION CONTRACTS STATUS REPORT

December 31, 2003

JOB DESCRIPTION	Revised contract price	Billings to date including retentions	Costs to date	Revised estimated cost to complete	Estimated total cost	Estimated profit (loss)	% of completion	Earned profit (loss)	Recorded profit (loss)	Costs and estimated earnings in excess	Billings in excess of costs
Highland Hospital	\$ 821,222	\$ 584,722	\$ 441,110	\$ 173,670	\$ 614,780	\$ 206,442	71.75%	\$ 148,124	\$ 143,612	\$ 4,512	\$ -
Towncenter Apartments	703,334	681,567	521,956	2,752	524,708	178,626	98.79%	176,465	159,611	16,854	-
Lou's Renovation	880,636	688,186	515,412	117,338	632,750	247,886	81.46%	201,918	142,774	59,144	-
Resources Unlimited	330,000	264,201	218,348	51,360	269,708	60,292	80.96%	48,811	45,853	2,958	-
Crestwood Condominiums	354,593	309,978	256,180	21,720	277,900	76,693	92.18%	70,699	53,798	16,901	-
Capital Construction	1,433,826	592,560	370,350	640,850	1,011,200	422,626	36.62%	154,786	222,210	88,220	67,424
Lakeview	579,642	445,832	436,234	37,240	473,474	106,168	92.13%	97,818	9,598	88,220	-
Rinehart Associates	582,596	257,707	229,004	287,000	516,004	66,592	44.38%	29,555	28,703	852	-
TOTAL	\$ 5,665,849	\$ 3,794,753	\$ 2,988,594	\$ 1,331,930	\$ 4,320,524	\$ 1,365,325		\$ 928,176	\$ 806,159	\$ 189,441	\$ 67,424

SEE ACCOUNTANTS' REVIEW REPORT