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SAMPLE CONTRACTOR, INC.

FINANCIAL STATEMENTS
WITH ACCOUNTANTS' COMPILATION REPORT

For the Year Ended June 30, 2003

SAMPLE CONTRACTOR, INC.
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June 30, 2003

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To the Board of Directors
Sample Contractor, Inc.
San Diego, California

We have compiled the accompanying balance sheet of Sample Contractor, Inc., as of June 30, 2003, and the related statements of income and retained earnings and cash flows for the year then ended, and the accompanying supplementary information contained in Schedules 1 through 5, which are presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements and supplementary schedules information that is the representation of management. We have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or any other form of assurance on them.

October 24, 2003

SAMPLE CONTRACTOR, INC.
BALANCE SHEET
June 30, 2003

ASSETS

Current assets:

| | |
|--|--------------|
| Cash and cash equivalents (Note 2) | \$ 107,300 |
| Contracts receivable (Note 3) | 242,500 |
| Costs and estimated earnings in excess of billings on contracts in progress (Note 4) | 62,500 |
| Investments (Note 5) | 114,500 |
| Other current assets | <u>3,100</u> |

Total current assets 529,900

Property and equipment:

| | |
|-------------------------|--------------|
| Machinery and equipment | 21,600 |
| Furniture and fixtures | 16,200 |
| Autos and trucks | 12,100 |
| Leasehold improvements | 23,100 |
| Office trailer | <u>1,700</u> |

74,700

Accumulated depreciation (51,200)

Net property and equipment 23,500

Other assets:

| | |
|-----------------------------|--------------|
| Deposits | 300 |
| Deferred tax asset (Note 6) | <u>5,000</u> |

Total other assets 5,300

Total assets \$ 558,700

See Accompanying Notes and Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
BALANCE SHEET
June 30, 2003

LIABILITIES AND STOCKHOLDER'S EQUITY

| | | |
|---|----|-----------------------|
| Current liabilities: | | |
| Accounts payable | \$ | 166,400 |
| Billings in excess of costs and estimated earnings on contracts in progress (Note 4) | | 159,300 |
| Accrued expenses | | 6,400 |
| Income tax payable | | <u>500</u> |
| Total current liabilities | | 332,600 |
| Other liabilities: | | |
| Due to stockholder (Note 7) | | <u>7,700</u> |
| Total liabilities | | <u>340,300</u> |
| Commitments and contingencies (Notes 8 and 9) | | |
| Stockholder's equity: | | |
| Common stock - no par value; 100,000 shares authorized; 1,000 issued and outstanding | | 5,900 |
| Retained earnings | | <u>212,500</u> |
| Total stockholder's equity | | <u>218,400</u> |
| Total liabilities and stockholder's equity | \$ | <u><u>558,700</u></u> |

See Accompanying Notes and Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
STATEMENT OF INCOME AND RETAINED EARNINGS
For the Year Ended June 30, 2003

| | | |
|--------------------------------------|--|--------------------------|
| Construction revenue | | \$ 1,141,900 |
| Costs of construction | | <u>1,018,200</u> |
| Gross profit | | 123,700 |
| Operating expenses | | <u>94,900</u> |
| Income from operations | | <u>28,800</u> |
| Other income (expense) | | |
| Interest income | | 8,000 |
| Other income | | 4,100 |
| Interest expense | | <u>(3,300)</u> |
| Total other income | | <u>8,800</u> |
| Income before taxes | | 37,600 |
| Income taxes (Note 6) | | <u>(16,100)</u> |
| Net income | | 21,500 |
| Retained earnings, beginning of year | | <u>191,000</u> |
| Retained earnings, end of year | | \$ <u><u>212,500</u></u> |

See Accompanying Notes and Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2003

| | |
|---|--------------------------|
| Cash flows from operating activities: | |
| Net income | \$ 21,500 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation | 2,800 |
| Deferred taxes | (900) |
| Decrease (increase) in assets: | |
| Contracts receivable | (2,200) |
| Costs and estimated earnings in excess of billings on contracts in progress | 21,800 |
| Other assets | 3,400 |
| Increase (decrease) in liabilities: | |
| Accounts payable | 5,000 |
| Billings in excess of costs and estimated earnings on contracts in progress | 7,300 |
| Accrued expenses | 3,300 |
| Income tax payable | <u>500</u> |
| Net cash provided by operating activities | <u>62,500</u> |
| Cash flows from investing activities: | |
| Purchase of property and equipment | (2,100) |
| Purchase of investments | <u>(33,600)</u> |
| Net cash used by investing activities | <u>(35,700)</u> |
| Cash flows from financing activities: | |
| Payments to stockholder | <u>(300)</u> |
| Net cash used by financing activities | <u>(300)</u> |
| Net increase in cash and cash equivalents | 26,500 |
| Cash and cash equivalents, beginning of year | <u>80,800</u> |
| Cash and cash equivalents, end of year | \$ <u><u>107,300</u></u> |

See Accompanying Notes and Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

1. Organization

Sample Contractor, Inc. (the Company) is a California corporation which organized in 1984. The Company is engaged as a general contractor principally in commercial and public works.

2. Significant Accounting Policies

Method of Income Recognition

The percentage-of-completion method of accounting for construction contracts is used in the financial statements. Under this method, income is recognized as the work on contracts progresses. Generally, such income represents the percentage of estimated total income that costs incurred to date bear to estimated total costs. When current estimates of total costs indicate a loss on a contract, a provision is made in the financial statements for the entire estimated amount of the loss. Since profits or losses under this method are determined while the contracts are in progress and, therefore, before all items of revenues and expenses have been finalized, the profit or loss reported for a particular period may include adjustments resulting from revised contract prices and cost estimates. Costs and estimated earnings in excess of billings are classified as a current asset and billings in excess of costs and estimated earnings are classified as a current liability.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all certificates of deposit with original Maturities of three months or less to be cash equivalents.

Contracts Receivable

Contracts receivable have been adjusted for all known uncollectible accounts. An allowance for doubtful accounts is established when, in the opinion of management, collection of the account is doubtful. No allowance was considered necessary at June 30, 2003.

See Accompanying Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2003

2. Significant Accounting Policies, Continued

Investments

The Company accounts for its investments under the Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (Statement 115). Statement 115 requires, among other things, that investments be classified as either held to maturity, trading, or available for sale.

Investments held to maturity are those which management intends to hold to maturity and which would not be sold prior to maturity due to liquidity needs or changes in market conditions. Investments held to maturity are recorded at amortized cost. Trading investments are those which are principally held for the purpose of sale in the near term in order to generate profits, and are recorded at their fair market value. Changes in the fair market value of trading investments are recognized in the statement of income. Investments held for sale are those which cannot be classified in either of the two preceding categories, and are recorded at their fair market value. Any changes in the fair market value of investments available for sale would be recognized in the statement of stockholder's equity.

Market value is determined by quoted market prices.

Property and Equipment

Property and equipment is carried at cost and is depreciated by the straight-line method over the estimated useful lives of the individual assets, generally five to seven years.

See Accompanying Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2003

2. Significant Accounting Policies, Continued

Income Taxes

The Company accounts for income taxes using the asset and liability approach prescribed by Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" (Statement 109). Under the asset and liability approach, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The types of temporary differences that give rise to significant portions of deferred taxes are depreciation and accrued interest on stockholder loans.

3. Contracts Receivable

The following is a detail of the contracts receivable at June 30, 2003:

| | |
|-----------------------|-------------------|
| Contracts in progress | \$ 181,200 |
| Retention receivable | <u>61,300</u> |
| | \$ <u>242,500</u> |

See Accompanying Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2003

4. Contracts in Progress

Contracts in progress consists of the following for the year ended June 30, 2003:

| | |
|---|---------------------------|
| Costs incurred on contracts in progress | \$ 2,232,800 |
| Estimated earnings | <u>337,200</u> |
| Total costs and estimated earnings | 2,570,000 |
| Less billings to date | <u>2,666,800</u> |
| | \$ <u><u>(96,800)</u></u> |

Included in the accompanying balance sheet under the following headings:

| | |
|---|---------------------------|
| Costs and estimated earnings in excess of billings on contracts in progress | \$ 62,500 |
| Billings in excess of costs and estimated earnings on contracts in progress | <u>(159,300)</u> |
| | \$ <u><u>(96,800)</u></u> |

5. Investments

Investments, which consist of government bonds and certificates of deposit with maturities greater than three months, have been classified as held to maturity. At June 30, 2003 the balance of investments was \$114,500 which represents its amortized cost.

See Accompanying Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2003

6. Income Taxes

The Company's net deferred tax asset at June 30, 2003 consists of the following:

Non-Current:

| | |
|---------|------------------------|
| Federal | \$ 3,900 |
| State | <u>1,100</u> |
| | \$ <u><u>5,000</u></u> |

Management believes that it is more likely than not that the deferred tax asset will be realized in the normal course of operations, and accordingly, no valuation allowance has been recognized as of June 30, 2003.

The provision for income taxes consists of the following for the year ended June 30, 2003:

Current income tax expense:

| | |
|---------|---------------|
| Federal | \$ 13,300 |
| State | <u>3,700</u> |
| | <u>17,000</u> |

Deferred income tax benefit:

| | |
|---------|--------------|
| Federal | (800) |
| State | <u>(100)</u> |
| | <u>(900)</u> |

| | |
|--------------------------|-------------------------|
| Total income tax expense | \$ <u><u>16,100</u></u> |
|--------------------------|-------------------------|

The primary differences between the effective rate and the amount computed by applying the statutory federal income tax rate to earnings before income taxes relates to state income taxes and non-deductible expenses for income tax purposes.

See Accompanying Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2003

7. Related Party Transactions

Transactions with Stockholder

The Company leases its office and yard facilities from the sole stockholder under a one year agreement which expires December 31, 2003. Monthly rental expense is \$200. Rent expense was \$2,400 for the year ended June 30, 2003.

The stockholder has also loaned the company \$7,700 which bears interest at 10% and is due on demand.

8. Line of Credit

The Company has a revolving line of credit with a bank with a maximum principal balance of \$40,000 maturing in March 2004. Interest is payable monthly at a base rate established by the bank (9.5% per annum at June 30, 2003) plus 1.25%. At June 30, 2003 there were no borrowings on the line of credit. This note is personally guaranteed by the Company's sole stockholder.

9. Major Customer and Credit Risk Concentration

Major Customers

The Company's contracts are generally with local, state, and federal government agencies. For the year ended June 30, 2003 all of its construction revenue was derived from these sources.

Credit Risk Concentration

At June 30, 2003, the Company had approximately \$90,000 of cash deposits within two institutions that were in excess of federally insured limits, representing a concentration of credit risk.

See Accompanying Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2003

10. Supplemental Cash Flow Information

For the year ended June 30, 2003, the Company paid income taxes of \$12,500 and interest of \$1,400.

See Accompanying Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
CONTRACT ACTIVITY - SCHEDULE 1
For The Year Ended June 30 , 2003

| Job # | Contract Description | Contract Amount | Estimated Total Cost | Estimated Gross Profit | From Contract Inception to June 30, 2003 | | | | | prior year | | | For the Year Ended June 30, 2003 | | | | |
|-------------------------------|---------------------------|---------------------|----------------------|------------------------|--|------------------|----------------------|---------------------|--|--|------------------|------------------|----------------------------------|----------------|------------------|------------------|----------------|
| | | | | | Billed to Date | Revenue to Date | Actual Costs to Date | Gross Profit Earned | Costs & Earnings in Excess of Billings | Billings in Excess of Costs & Earnings | Percent Complete | Revenue Earned | Cost Of Revenue | Gross Profit | Revenue Earned | Cost of Revenue | Gross Profit |
| Completed Contracts: | | | | | | | | | | | | | | | | | |
| 1 | San Diego School District | \$ 464,800 | 463,400 | 1,400 | 464,800 | 464,800 | 463,400 | 1,400 | - | - | 100% | 462,600 | 461,600 | 1,000 | 2,200 | 1,800 | 400 |
| 2 | Warehouse B | 382,300 | 303,200 | 79,100 | 382,300 | 382,300 | 303,200 | 79,100 | - | - | 100% | 374,200 | 299,700 | 74,500 | 8,100 | 3,500 | 4,600 |
| 3 | Warehouse | 179,500 | 151,500 | 28,000 | 179,500 | 179,500 | 151,500 | 28,000 | - | - | 100% | 166,700 | 140,600 | 26,100 | 12,800 | 10,900 | 1,900 |
| | | <u>1,026,600</u> | <u>918,100</u> | <u>108,500</u> | <u>1,026,600</u> | <u>1,026,600</u> | <u>918,100</u> | <u>108,500</u> | <u>-</u> | <u>-</u> | | <u>1,003,500</u> | <u>901,900</u> | <u>101,600</u> | <u>23,100</u> | <u>16,200</u> | <u>6,900</u> |
| Contracts in Progress: | | | | | | | | | | | | | | | | | |
| 4 | Maintenance Department | 1,056,100 | 817,300 | 238,800 | 896,900 | 959,400 | 742,500 | 216,900 | 62,500 | - | 91% | 529,500 | 362,400 | 167,100 | 429,900 | 380,100 | 49,800 |
| 5 | Elementary School | 586,500 | 507,800 | 78,700 | 515,000 | 474,400 | 450,500 | 23,900 | - | 40,600 | 89% | 295,200 | 282,500 | 12,700 | 179,200 | 168,000 | 11,200 |
| 6 | Home Center | 468,200 | 395,200 | 73,000 | 315,000 | 273,600 | 246,800 | 26,800 | - | 41,400 | 62% | 87,400 | 79,900 | 7,500 | 186,200 | 166,900 | 19,300 |
| 7 | Controllor | 356,700 | 319,600 | 37,100 | 318,200 | 294,100 | 273,800 | 20,300 | - | 24,100 | 86% | 162,600 | 154,700 | 7,900 | 131,500 | 119,100 | 12,400 |
| 8 | Hall Expansion | 242,600 | 215,800 | 26,800 | 220,900 | 198,300 | 187,300 | 11,000 | - | 22,600 | 87% | 125,800 | 119,600 | 6,200 | 72,500 | 67,700 | 4,800 |
| 9 | Gymnasium | 194,400 | 180,200 | 14,200 | 191,700 | 186,600 | 173,000 | 13,600 | - | 5,100 | 96% | 150,000 | 139,500 | 10,500 | 36,600 | 33,500 | 3,100 |
| 10 | Building Renovation | 137,300 | 112,200 | 25,100 | 83,300 | 60,500 | 49,400 | 11,100 | - | 22,800 | 44% | 1,500 | 1,200 | 300 | 59,000 | 48,200 | 10,800 |
| 11 | Reception Center | 127,400 | 113,300 | 14,100 | 12,580 | 123,100 | 109,500 | 13,600 | 110,520 | - | 97% | 99,200 | 91,000 | 8,200 | 23,900 | 18,500 | 5,400 |
| | | <u>3,169,200</u> | <u>2,661,400</u> | <u>507,800</u> | <u>2,553,580</u> | <u>2,570,000</u> | <u>2,232,800</u> | <u>337,200</u> | <u>173,020</u> | <u>156,600</u> | | <u>1,451,200</u> | <u>1,230,800</u> | <u>220,400</u> | <u>1,118,800</u> | <u>1,002,000</u> | <u>116,800</u> |
| | | <u>\$ 4,195,800</u> | <u>3,579,500</u> | <u>616,300</u> | <u>3,580,180</u> | <u>3,596,600</u> | <u>3,150,900</u> | <u>445,700</u> | <u>173,020</u> | <u>156,600</u> | | <u>2,454,700</u> | <u>2,132,700</u> | <u>322,000</u> | <u>1,141,900</u> | <u>1,018,200</u> | <u>123,700</u> |

See Accompanying Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
COSTS OF CONSTRUCTION - SCHEDULE 2
For the Year Ended June 30, 2003

| | | |
|---------------------------------|--------|-----------------------------|
| Costs of construction: | | |
| Subcontractors | \$ | 901,900 |
| Labor | | 50,500 |
| Materials | | 32,500 |
| General | | 28,000 |
| Equipment | | <u>5,300</u> |
| Total costs of construction | \$ | <u><u>1,018,200</u></u> |

See Accompanying Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
OPERATING EXPENSES - SCHEDULE 3
For the Year Ended June 30, 2003

| | | |
|------------------------------|--------|--------------------------|
| Operating expenses: | | |
| Salaries | \$ | 32,000 |
| Professional fees | | 14,800 |
| Insurance | | 12,000 |
| Advertising | | 4,900 |
| Other | | 4,300 |
| Automobile | | 3,600 |
| Depreciation | | 2,800 |
| Office supplies | | 2,600 |
| Repairs and maintenance | | 2,600 |
| Management fee | | 2,500 |
| Rent | | 2,400 |
| Miscellaneous | | 2,200 |
| Contributions | | 1,800 |
| Telephone | | 1,700 |
| Dues and subscriptions | | 1,200 |
| Entertainment | | 1,100 |
| Utilities | | 1,000 |
| Travel | | 800 |
| Bank charges | | 400 |
| Penalties | | <u>200</u> |
| Total operating expenses | \$ | <u><u>94,900</u></u> |

See Accompanying Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
CONTRACTS RECEIVABLE - SCHEDULE 4

June 30, 2003

| Description | Current | +30 Days | +60 Days | +90 Days | Retention | Total |
|------------------------|------------|----------|----------|----------|-----------|---------|
| ABC Company | \$ - | - | - | - | 31,000 | 31,000 |
| Bob Construction | - | - | - | - | 7,400 | 7,400 |
| Howards & Green | 1,200 | - | - | - | - | 1,200 |
| Johnson & Johnson | - | - | - | - | 500 | 500 |
| AB Building Components | 60,500 | - | - | - | - | 60,500 |
| Tri-County Glass | 87,900 | - | - | - | - | 87,900 |
| XYZ Company, Inc. | 31,600 | - | - | - | 22,400 | 54,000 |
| | \$ 181,200 | - | - | - | 61,300 | 242,500 |

See Accompanying Accountants' Compilation Report

SAMPLE CONTRACTOR, INC.
ACCOUNTS PAYABLE - SCHEDULE 5

June 30, 2003

| Description | Current | +30 Days | +60 Days | +90 Days | Retention | Total |
|------------------------------|-------------------|----------|----------|----------|---------------|----------------|
| American Contractors, Inc. | \$ 17,200 | - | - | - | 800 | 18,000 |
| American Insurance | 14,200 | - | - | - | - | 14,200 |
| Brown Construction | 13,000 | - | - | - | 1,300 | 14,300 |
| Benson Contractors | 12,400 | - | - | - | 1,200 | 13,600 |
| California Steel | 12,100 | - | - | - | 1,200 | 13,300 |
| Custom Equipment | 11,500 | - | - | - | 1,100 | 12,600 |
| Davis Company | 10,900 | - | - | - | 1,000 | 11,900 |
| Darton Landscaping | 10,100 | - | - | - | 900 | 11,000 |
| Eagle Equipment | 8,900 | - | - | - | 500 | 9,400 |
| Harper & Brown | 6,400 | - | - | - | 600 | 7,000 |
| Johnson Construction Company | 5,500 | - | - | - | 500 | 6,000 |
| Larson & Sons | 4,800 | - | - | - | 500 | 5,300 |
| Moore & Moore | 4,000 | - | - | - | 400 | 4,400 |
| National Equipment | 3,200 | - | - | - | 300 | 3,500 |
| Stone Company | 2,500 | - | - | - | 200 | 2,700 |
| Smith & Jones | 2,100 | - | - | - | 200 | 2,300 |
| Travel Construction | 1,800 | - | - | - | - | 1,800 |
| Payables < \$5,000 | 14,500 | - | - | - | 600 | 15,100 |
| | <u>\$ 155,100</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>11,300</u> | <u>166,400</u> |

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