Illustrative Financial Statements Prepared Using the Financial Reporting Framework for Small- and Medium-Entities

Illustrative Financial Statements

This component of the toolkit contains sample financial statements intended to illustrate financial statements prepared under the FRF for SMEs™ accounting framework. Also included are sample financial statements based on accounting principles generally accepted in the United States of America (U.S. GAAP). During the AICPA staff's outreach efforts related to the FRF for SMEs™ accounting framework, users of financial statements and other stakeholders asked for comparisons of financial statements prepared under the framework to those prepared under U.S. GAAP. These are presented for comparative purposes.

These sample financial statements are included for illustrative purposes and are not intended to establish reporting requirements. Furthermore, the dollar amounts shown are illustrative only and are not intended to indicate any customary relationship among accounts. The sample financial statements do not include all of the accounts and transactions that might be found in practice. The notes indicate the subject matter generally required to be disclosed, but should be expanded, reduced, or modified to suit individual circumstances and materiality considerations.

In the following illustrative financial statements based on the FRF for SMEs accounting framework, it is presumed that the management of Alpha Contractors Inc. and subsidiary evaluated the financial reporting needs and responsibilities of their businesses and determined that the FRF for SMEs accounting framework was a suitable accounting option to use in the preparation of their financial statements.

Technical Hotline

AICPA members with technical questions about the FRF for SMEs may call the Accounting and Auditing Technical Hotline at **888.777.7077**, menu option No. 5, followed by menu option No. 3. You may also submit questions to the **online** Accounting and Auditing Technical Hotline.

Alpha Contractors, Inc. and Subsidiary
Comparative Financial Statements
December 31, 2013 and 2012
Based on the FRF for SMEs Accounting Framework

Primary differences between the Alpha Contractors illustrative financial statements based on the FRF for SMEs accounting framework and those based on U.S. GAAP are

- in the financial statements based on the FRF for SMEs accounting framework, Alpha Contractors adopts the taxes payable method for accounting for income taxes. In the U.S. GAAP presentation, Alpha Contractors is required to follow the deferred taxes method, including the accounting guidance for uncertainty in income taxes, and makes the related disclosures.
- the financial statements based on the FRF for SMEs accounting framework do not include the "Impairment of Long-Lived Assets" disclosure in the summary of significant accounting policies that is contained in the U.S. GAAP-based financial statements. The FRF for SMEs accounting framework does not require impairment testing of long-lived assets.

Note:

No supplemental schedules, that are commonly prepared to accompany or supplement the basic financial statements, have been prepared as part of this illustration.

<u>Independent Auditor's Report</u>

To the Stockholders
Alpha Contractors, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Alpha Contractors, Inc. and Subsidiary, which comprise the consolidated statements of assets, liabilities and equity as of December 31, 2013 and 2012, and the related consolidated statements of revenue, expenses and retained earnings, and cash flows for the years then ended, and the related notes to the consolidated 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 the *Financial Reporting Framework for Small- and Medium-Sized Entities* issued by the American Institute of Certified Public Accountants, described in Note 1; this includes determining that the *Financial Reporting Framework for Small- and Medium-Sized Entities* is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audits to obtain reasonable assurance about 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 judgment, 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 Company'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 Company'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 a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alpha Contractors, Inc. and Subsidiary, as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with the *Financial Reporting Framework for Small- and Medium-Sized Entities*, described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the *Financial Reporting Framework for Small- and Medium-Sized Entities*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

[*Signature of Accounting Firm*]
Greenville, South Carolina
February 18, 2014

Alpha Contractors, Inc.

Consolidated Statements of Assets, Liabilities and Equity
(FRF for SMEs Basis)
December 31, 2013 and 2012

Assets	*2013*	*2012*
Cash and cash equivalents	$304,400	$221,300
Contracts receivables	3,789,200	3,334,100
Costs and estimated earnings in excess of billings on uncompleted contracts	156,900	100,600
Inventory	89,700	99,100
Prepaid charges and other assets	118,400	83,200
Total current assets	4,458,600	3,838,300
Advances to and equity in joint venture	205,600	130,700
Note receivable, related company	175,000	150,000
Property and equipment, net of accumulated depreciation and amortization	976,400	1,019,200
Total long term assets	1,357,000	1,299,900
Total assets	$5,815,600	$5,138,200

See independent accountants' audit report and notes to consolidated financial statements.

Liabilities and Shareholders' Equity

Liabilities	*2013*	*2012*
Current maturities of notes payable	$110,300	$110,300
Current portion of lease obligations payable	62,250	57,250
Accounts and retentions payable	2,543,100	2,588,500
Billings in excess of costs and estimated earnings on uncompleted contracts	242,000	221,700
Accrued loss on uncompleted contract	76,700	
Other accrued liabilities	88,600	114,600
Total current liabilities	3,122,950	3,092,350
Notes payable, less current maturities	357,800	468,100
Lease obligations payable, less current portion	135,350	194,050
Long-term accrued liabilities	154,200	26,200
Total long term liabilities	647,350	688,350
Total liabilities	3,770,300	3,780,700
Shareholders' equity		
Common stock—$1 par value, 500,000 authorized shares, 300,000 issued and outstanding shares	300,000	300,000
Retained earnings	1,745,300	1,057,500
Total shareholders' equity	2,045,300	1,357,500
Total liabilities and shareholders' equity	$5,815,600	$5,138,200

See independent accountants’ audit report and notes to consolidated financial statements.

Alpha Contractors, Inc.

Consolidated Statements of Revenues, Expenses and Retained Earnings
(FRF for SMEs Basis)
Years Ended December 31, 2013 and 2012

	2013	2012
Contract revenues earned	$9,630,800	$6,225,400
Cost of revenues earned	7,436,100	4,951,300
Gross profit	2,194,700	1,274,100
Selling, general, and administrative expense	895,600	755,600
Income from operations	1,299,100	518,500
Other income (expense)		
Equity in earnings from unconsolidated joint venture	49,900	5,700
Gain on sale of equipment	10,000	2,000
Interest expense (net of interest income of $8,800 in 2013 and $6,300 in 2012)	(69,500)	(70,800)
Total other expense	(9,600)	(63,100)
Income before current year tax expense	1,289,500	455,400
Income tax expense	451,700	300,900
Net income	837,800	154,500
Retained earnings, beginning of year	1,057,500	1,053,000
	1,895,300	1,207,500
Less: Dividends paid (per share $.50 (2013); $.50 (2012))	150,000	150,000
Retained earnings, end of year	$1,745,300	$1,057,500

See independent accountants' audit report and notes to consolidated financial statements.

Alpha Contractors, Inc.

Consolidated Statements of Cash Flows
(FRF for SMEs Basis)
Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Net income	$837,800	$154,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	167,800	153,500
Provision for losses on contract receivables	6,300	1,100
Gain on sale of equipment	(10,000)	(2,000)
Equity earnings from unconsolidated joint venture	(49,900)	(5,700)
Increase in long-term accrued liabilities	128,000	26,200
Increase in contract receivables	(461,400)	(10,200)
Increase in costs and estimated earnings in excess of billings on uncompleted contracts	(56,300)	(8,000)
Increase in billings in excess of costs and estimated earnings on uncompleted contracts	20,300	18,500
Decrease (increase) in inventory	9,400	(3,600)
(Increase) decrease in prepaid charges and other assets	(35,200)	16,100
(Decrease) increase in accounts and retentions payable	(45,400)	113,200
Increase in accrued loss on uncompleted contract	76,700	
(Decrease) increase in other accrued liabilities	(26,000)	18,800
Net cash provided by operating activities	562,100	472,400

See independent accountants' audit report and notes to consolidated financial statements.

Cash flows from investing activities:		
Proceeds of equipment sold	25,000	5,000
Acquisition of equipment	(140,000)	(175,000)
Advances to joint venture	(25,000)	(9,700)
Advances to related company	(25,000)	(50,000)
Net cash used in investing activities	(165,000)	(229,700)
Cash flows from financing activities:		
Principal payments on notes payable	(110,300)	(90,300)
Principal payments under capital lease obligations	(53,700)	(9,700)
Cash dividends paid	(150,000)	(150,000)
Net cash used in financing activities	(314,000)	(250,000)
Net increase (decrease) in cash and cash equivalents	83,100	(7,300)
Cash and cash equivalents at beginning of year	221,300	228,600
Cash and cash equivalents at end of year	$304,400	$221,300

See independent accountants' audit report and notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with the *Financial Reporting Framework for Small- and Medium-Sized Entities* issued by the American Institute of Certified Public Accountants, which is a special purpose framework and not U.S. generally accepted accounting principles ("U.S.GAAP"). The accounting principles comprising the framework are appropriate for the preparation and presentation of small- and medium-sized entity financial statements, based on the needs of the financial statement users and cost and benefit considerations. This special purpose framework, unlike U.S. GAAP, does not require the recognition of deferred taxes. We have chosen the option to recognize only current income tax assets and liabilities.

Nature of Operations

The Company is engaged in the construction of industrial and commercial buildings primarily in the southeastern region of the United States. The Company's work is performed under cost-plus-fee contracts, fixed-price contracts, and fixed-price contracts modified by incentive and penalty provisions. These contracts are undertaken by the Company or its wholly owned subsidiary alone or in partnership with other contractors through joint ventures. The length of the Company's contracts varies but is typically about two years. The Company follows the practice of filing statutory liens on all construction projects when collection problems are anticipated. The liens serve as collateral for contracts receivable.

Use of Estimates

The preparation of financial statements in conformity with the *Financial Reporting Framework for Small and Medium-Sized Entities* requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

Statement of Assets, Liabilities and Equity Classification

The Company includes in current assets and liabilities retainage amounts receivable and payable under construction contracts, which may extend beyond one year. A one-year time period is used as the basis for classifying all other current assets and liabilities.

Principles of Consolidation

The consolidated financial statements include the Company's majority-owned entity, a wholly owned corporate subsidiary (Beta Building). All significant intercompany transactions are eliminated. Income from Beta Building was $212,300 in 2013 and $35,900 in 2012, respectively. The Company has a noncontrolling interest in a joint venture (partnership), which is reported on the equity method.

Cash and Cash Equivalents

For purposes of the consolidated statements 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.

Contracts Receivable

Contracts receivable from performing construction of industrial and commercial buildings are based on contracted prices. The Company provides an allowance for doubtful collections, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal contracts receivable are due 30 days after the issuance of the invoice. Contract retentions are due 30 days after completion of the project and acceptance by the owner. Receivables past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventory

Inventory consisting of building materials is stated at the lower of cost (first in, first out method) or net realizable value.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years. Leasehold improvements are amortized over the shorter of the useful life of the related assets or the lease term. Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any related gain or loss is reflected in income for the period.

Revenue and Cost Recognition

Revenues from fixed price construction contracts are recognized on the percentage of completion method, measured on the basis of incurred costs to estimated total costs for each contract. This cost to cost method is used because management considers it to be the best available measure of progress on these contracts. Revenues from cost-plus fee contracts are recognized on the basis of costs incurred during the period plus the fee earned, measured by the cost to cost method.

The financial statements include some amounts that are based on management's best estimates and judgments. The most significant estimates relate to costs to complete long-term contracts. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, 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. Profit incentives are included in revenues when their realization is reasonably assured. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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.

Union-Sponsored Pension Plan

The Company participates in a union-sponsored pension plan (ABC Pension Fund) which is a defined benefit plan that covers union employees. Contributions to the plan are based on a fixed rate per hour worked. Pension expense under this plan was $550,000 and $500,000 for the years ended December 31, 2013 and 2012, respectively.

Income Taxes

For financial reporting purposes, the Company has elected to use the taxes payable method. Under that method, income tax expense represents the amount of income tax the Company expects to pay based on the Company's current year taxable income.

Current year taxable income varies from income before current year tax expense primarily due to the use of the completed-contract method and the use of an accelerated depreciation method for tax reporting purposes

Business tax credits are applied as a reduction to the provision for federal income taxes using the flow-through method.

Evaluation of Subsequent Events

The Company has evaluated subsequent events through February 18, 2014, which is the date the financial statements were available to be issued.

2. CONTRACTS RECEIVABLE[1]

	December 31, 2013	*December 31, 2012*
Billed		
Completed contracts	$621,100	$500,600
Contracts in progress	2,146,100	1,931,500
Retained	976,300	866,200
Unbilled	121,600	105,400
	3,865,100	3,403,700
Less: Allowances for doubtful collections	75,900	69,600
	$3,789,200	$3,334,100

Analysis of the changes in the allowance for doubtful collections.

	2013	*2012*
Balance at January 1	$69,600	$68,000
Additions charged to operations	6,300	1,100
Direct write-downs	—	500
Recoveries	—	—
Balance at December 31	$75,900	$69,600

Contracts receivable at December 31, 2013, include a claim, expected to be collected within one year, for $290,600 arising from a dispute with the owner over design and specification changes in a building currently under construction. The changes were made at the request of the owner to improve the thermal characteristics of the building and, in the opinion of counsel, gave rise to a valid claim against the owner.

The retained and unbilled contracts receivable at December 31, 2013, included $38,600 that was not expected to be collected within one year.

Contracts receivable include approximately $800,000 due under one contract.

See independent accountants' audit report

[1] This disclosure is not explicitly required by the FRF for SMEs accounting framework. However, as the FRF for SMEs framework is principles based, it requires the presentation of sufficient information for a fair presentation. As such, management of Alpha Contractors has decided to include this disclosure in the financial statements as necessary to provide sufficient information to the financial statement users.

3. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS[2]

The following is a summary of contracts in progress at December 31, 2013 and 2012.

	2013	2012
Costs incurred on uncompleted contracts	$4,346,500	$3,165,400
Estimated earnings	651,600	506,100
	4,998,100	3,671,500
Less: Billings to date	5,083,200	3,792,600
	$(85,100)	$(121,100)
These amounts are included in accompanying consolidated statements of assets, liabilities and equity under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$156,900	$100,600
Billings in excess of costs and estimated earnings on uncompleted contracts	(242,000)	(221,700)
	$(85,100)	$(121,100)

4. ADVANCES TO AND EQUITY IN JOINT VENTURE

The Company has a noncontrolling interest (one-third) in a general partnership joint venture (XYZ Venture) formed to construct an office building. All of the partners participate in construction, which is under the general management of the Company. Summary information on the joint venture follows.

	December 31, 2013	*December 31, 2012*
Current assets	$483,100	$280,300
Construction and other assets	220,500	190,800
	703,600	471,100
Less: Liabilities	236,800	154,000
	$466,800	$317,100

See independent accountants' audit report

[2] See footnote 1.

Net assets		
Revenue	$3,442,700	$299,400
Net income	$149,700	$17,100
Company's interest		
Share of net income	$49,900	$5,700
Advances to joint venture	$50,000	$25,000
Equity in net assets	155,600	105,700
Total advances and equity	$205,600	$130,700

5. TRANSACTIONS WITH RELATED PARTY

The note receivable, related company, is an installment note bearing annual interest at 9 percent, payable quarterly, with the principal payable in annual installments of $25,000, commencing October 1, 2015.

The major shareholder of the Company owns the majority of the outstanding common stock of this related company, whose principal activity is leasing land and buildings. Alpha Contractors, Inc., rents land and office facilities from the related company on a 10-year lease ending September 30, 2021, for an annual rental of $19,000.

6. PROPERTY AND EQUIPMENT

	December 31, 2013	*December 31, 2012*
Assets		
Land	$57,500	$57,500
Buildings	262,500	262,500
Shop and construction equipment	827,600	727,600
Automobiles and trucks	104,400	89,100
Leased equipment under capital leases	300,000	300,000
	1,552,000	1,436,700

Accumulated depreciation and amortization	575,600	417,500
Net property and equipment	$976,400	$1,019,200

7. FINANCING ACTIVITIES

Line of Credit

The Company has a line of credit agreement with a bank of $1,500,000. There were no borrowings against the line at December 31, 2013 and 2012. The line bears interest at the bank's prime lending rate. The line is reviewed annually and is due on demand. Under terms of the line of credit, the Company is required to maintain a specified debt service coverage ratio and debt to tangible net worth ratio, as those terms are defined.

Notes Payable

The following is a summary of all notes payable.

	December 31, 2013	*December 31, 2012*
Unsecured note payable to Aztec Bank, due in quarterly installments of $22,575 plus interest at 1% over prime through June 2018.	$388,100	$478,400
Note payable to State Bank, collateralized by equipment[3] (carrying amount of $150,000), due in monthly installments of $1,667 plus interest at 10% through January 2018	80,000	100,000
	$468,100	$578,400
Current maturities	110,300	110,300
	$357,800	$468,100

See independent accountants' audit report

[3] Note: Terms and conditions related to the pledge of collateral should be disclosed as appropriate.

Principal payments on note payables are due as follows.

Year ending December 31,

2014	$110,300
2015	$110,300
2016	$110,300
2017	$110,300
2018	$26,900

8. LEASE OBLIGATIONS PAYABLE

The Company leases certain specialized construction equipment under leases classified as capital leases. The leased equipment is amortized on a straight line basis over 6 years. Total accumulated amortization related to the leased equipment is $100,000 and $50,000 at December 31, 2013 and 2012, respectively. The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of December 31, 2013. The interest rate related to the lease obligation is 9.3% and the maturity date is January 2016.

Year ending December 31

2014	$76,500
2015	76,500
2016	76,500
Total minimum lease payments	229,500
Less: Amount representing interest	31,900
Present value of minimum lease payments	$197,600

At December 31, 2013, the present value of minimum lease payments due within one year is $62,250.

Total rental expense, excluding payments on capital leases, totaled $86,300 in 2013 and $74,400 in 2012.

9. SURETY BONDS

The Company, as a condition for entering into some of its construction contracts, had outstanding surety bonds as of December 31, 2013 and 2012. The surety bonds are collateralized by certain contracts receivable and personally guaranteed by the stockholders of the Company.

10. CONTINGENCIES

From time to time, the Company is involved in routine litigation that arises in the ordinary course of business. There are no pending significant legal proceedings to which the Company is a party for which management believes the ultimate outcome would have a material adverse effect on the Company's financial position.

The Company is contingently liable to a surety company under a general indemnity agreement. The Company agrees to indemnify the surety for any payments made on contracts of surety ship, guaranty, or indemnity. The Company believes that all contingent liabilities will be satisfied by their performance on the specific bonded contracts.

11. BACKLOG[4]

The following schedule shows a reconciliation of backlog representing the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress at December 31, 2013 and 2012, and from contractual agreements on which work has not yet begun.

Contract revenues on uncompleted contracts at December 31, 2012	$9,779,900
Contract adjustments	430,600
Contract revenues for new contracts, 2013	1,502,700
	11,713,200
Less: Contract revenue earned, 2013	9,630,800
Backlog at December 31, 2013	$2,082,400

In addition, between January 1, 2014, and February 18, 2014, the Company entered into additional construction contracts with revenues of $332,800.

[4] This disclosure is not explicitly required by the FRF for SMEs accounting framework. However, as the FRF for SMEs framework is principles based, it requires the presentation of sufficient information for a fair presentation. As such, management of Alpha Contractors has decided to include this disclosure in the financial statements as necessary to provide sufficient information to the financial statement users. Management may have also chosen to provide qualitative information about backlog and omit a quantitative reconciliation. Backlog information for the year ending December 31, 2012 may also need to be disclosed depending upon the circumstances of a contractor and the needs of the financial statement users.

Alpha Contractors, Inc. and Subsidiaries
Comparative Financial Statements
December 31, 2013 and 2012
Based on U.S. GAAP

Primary differences between the Alpha Contractors illustrative financial statements based on the FRF for SMEs accounting framework and those based on U.S. GAAP are

- in the financial statements based on the FRF for SMEs accounting framework, Alpha Contractors adopts the taxes payable method for accounting for income taxes. In the U.S. GAAP presentation, Alpha Contractors is required to follow the deferred taxes method, including the accounting guidance for uncertainty in income taxes, and makes the related disclosures.
- the financial statements based on the FRF for SMEs accounting framework do not include the "Impairment of Long-Lived Assets" disclosure in the summary of significant accounting policies that is contained in the U.S. GAAP-based financial statements. The FRF for SMEs accoungint framework does not require impairment testing of long-lived assets.

Note:

No supplemental schedules, that are commonly prepared to accompany or supplement the basic financial statements, have been prepared as part of this illustration.

<u>Independent Auditor's Report</u>

To the Stockholders
Alpha Contractors, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Alpha Contractors, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, and the related notes to the consolidated 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 audits to obtain reasonable assurance about 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 judgment, 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 Company'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 Company'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 a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alpha Contractors, Inc. and Subsidiary as of December 31, 2013 and 2012, 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.

[*Signature of Accounting Firm*]
Greenville, South Carolina
February 18, 2014

Alpha Contractors, Inc.

Consolidated Balance Sheets
December 31, 2013 and 2012

Assets	2013	2012
Cash and cash equivalents	$304,400	$221,300
Contracts receivables	3,789,200	3,334,100
Costs and estimated earnings in excess of billings on uncompleted contracts	156,900	100,600
Inventory	89,700	99,100
Prepaid charges and other assets	118,400	83,200
Total current assets	4,458,600	3,838,300
Advances to and equity in joint venture	205,600	130,700
Note receivable, related company	175,000	150,000
Property and equipment, net of accumulated depreciation and amortization	976,400	1,019,200
Total long term assets	1,357,000	1,299,900
Total assets	$5,815,600	$5,138,200

See independent accountants' audit report and accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity

Liabilities	*2013*	*2012*
Current maturities of notes payable	$110,300	$110,300
Current portion of lease obligations payable	62,250	57,250
Accounts and retentions payable	2,543,100	2,588,500
Billings in excess of costs and estimated earnings on uncompleted contracts	242,000	221,700
Accrued loss on uncompleted contract	76,700	
Current deferred tax liability	594,000	389,800
Other accrued liabilities	88,600	114,600
Total current liabilities	3,716,950	3,482,150
Notes payable, less current maturities	357,800	468,100
Lease obligations payable, less current portion	135,350	194,050
Long-term accrued liabilities	154,200	26,200
Deferred tax liability	25,200	18,200
Total long term liabilities	672,550	706,550
Total liabilities	4,389,500	4,188,700
Shareholders' equity		
Common stock—$1 par value, 500,000 authorized shares, 300,000 issued and outstanding shares	300,000	300,000
Retained earnings	1,126,100	649,500
Total shareholders' equity	1,426,100	949,500
Total liabilities and shareholders' equity	$5,815,600	$5,138,200

See independent accountants' audit report and accompanying notes to consolidated financial statements.

Alpha Contractors, Inc.

Consolidated Statements of Income and Retained Earnings
Years Ended December 31, 2013 and 2012

	2013	*2012*
Contract revenues earned	$9,630,800	$6,225,400
Cost of revenues earned	7,436,100	4,951,300
Gross profit	2,194,700	1,274,100
Selling, general, and administrative expense	895,600	755,600
Income from operations	1,299,100	518,500
Other income (expense)		
Equity in earnings from unconsolidated joint venture	49,900	5,700
Gain on sale of equipment	10,000	2,000
Interest expense (net of interest income of $8,800 in 2013 and $6,300 in 2012)	(69,500)	(70,800)
Total other expense	(9,600)	(63,100)
Income before provision of income taxes	1,289,500	455,400
Provision for income taxes	662,900	225,000
Net income	626,600	230,400
Retained earnings, beginning of year	649,500	569,100
	1,276,100	799,500
Less: Dividends paid (per share $.50 (2013); $.50 (2012))	150,000	150,000
Retained earnings, end of year	$1,126,100	$649,500

See independent accountants' audit report and accompanying notes to consolidated financial statements.

Alpha Contractors, Inc.

Consolidated Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	2013	*2012*
Cash flows from operating activities:		
Net income	$626,600	$230,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	167,800	153,500
Provision for losses on contract receivables	6,300	1,100
Gain on sale of equipment	(10,000)	(2,000)
Increase (decrease) in deferred taxes	211,200	(75,900)
Equity earnings from unconsolidated joint venture	(49,900)	(5,700)
Increase in long-term accrued liabilities	128,000	26,200
Increase in contract receivables	(461,400)	(10,200)
Net (decrease) increase in billings related to costs and estimated earnings on uncompleted contracts	(36,000)	10,500
Decrease (increase) in inventory	9,400	(3,600)
(Increase) decrease in prepaid charges and other assets	(35,200)	16,100
(Decrease) increase in accounts and retentions payable	(45,400)	113,200
Increase in accrued loss on uncompleted contract	76,700	
(Decrease) increase in other accrued liabilities	(26,000)	18,800
Net cash provided by operating activities	562,100	472,400

See independent accountants' audit report and accompanying notes to consolidated financial statements.

Cash flows from investing activities:		
Proceeds of equipment sold	25,000	5,000
Acquisition of equipment	(140,000)	(175,000)
Advances to joint venture	(25,000)	(9,700)
Advances to related company	(25,000)	(50,000)
Net cash used in investing activities	(165,000)	(229,700)
Cash flows from financing activities:		
Principal payments on notes payable	(110,300)	(90,300)
Principal payments under capital lease obligations	(53,700)	(9,700)
Cash dividends paid	(150,000)	(150,000)
Net cash used in financing activities	(314,000)	(250,000)
Net increase (decrease) in cash and cash equivalents	83,100	(7,300)
Cash and cash equivalents at beginning of year	221,300	228,600
Cash and cash equivalents at end of year	$304,400	$221,300

Supplemental data:

Interest paid—2013, $73,500; 2012, $75,100

Income taxes paid—2013, $478,300; 2012, $313,200

See independent accountants' audit report and accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company is engaged in the construction of industrial and commercial buildings primarily in the southeastern region of the United States. The Company's work is performed under cost-plus-fee contracts, fixed-price contracts, and fixed-price contracts modified by incentive and penalty provisions. These contracts are undertaken by the Company or its wholly owned subsidiary alone or in partnership with other contractors through joint ventures. The length of the Company's contracts varies but is typically about two years. The Company follows the practice of filing statutory liens on all construction projects when collection problems are anticipated. The liens serve as collateral for contracts receivable.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

Balance Sheet Classification

The Company includes in current assets and liabilities retainage amounts receivable and payable under construction contracts, which may extend beyond one year. A one-year time period is used as the basis for classifying all other current assets and liabilities.

Principles of Consolidation

The consolidated financial statements include the Company's majority-owned entity, a wholly owned corporate subsidiary. All significant intercompany transactions are eliminated. The Company has a noncontrolling interest in a joint venture (partnership), which is reported on the equity method.

Cash and Cash Equivalents

For purposes of the consolidated statements 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.

Contracts Receivable

Contracts receivable from performing construction of industrial and commercial buildings are based on contracted prices. The Company provides an allowance for doubtful collections, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal contracts receivable are due 30 days after the issuance of the invoice. Contract retentions are due 30 days after completion of the project and acceptance by the owner. Receivables past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventory

Inventory consisting of building materials is stated at the lower of cost (first in, first out method) or market.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years. Leasehold improvements are amortized over the shorter of the useful life of the related assets or the lease term. Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any related gain or loss is reflected in income for the period.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate to the carrying amount. If the operation is determined to be unable to recover the carrying amount of its assets, then assets are written down first, followed by other long-lived assets of the operation to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. As of December 31, 2013 and 2012, there were no impairment losses recognized for long-lived assets.

Revenue and Cost Recognition

Revenues from fixed price construction contracts are recognized on the percentage of completion method, measured on the basis of incurred costs to estimated total costs for each contract. This cost to cost method is used because management considers it to be the best available measure of progress on these contracts. Revenues from cost-plus fee contracts are recognized on the basis of costs incurred during the period plus the fee earned, measured by the cost to cost method.

The financial statements include some amounts that are based on management's best estimates and judgments. The most significant estimates relate to costs to complete long-term contracts. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, 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. Profit incentives are included in revenues when their realization is reasonably assured. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled as prescribed in FASB ASC 740. As changes in tax laws or rate are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Current year taxable income varies from income before current year tax expense primarily due to the use of the completed-contract method and the use of an accelerated depreciation method for tax reporting purposes.

Business tax credits are applied as a reduction to the current provision for federal income taxes using the flow-through method.

Effective January 1, 2009, the Company implemented the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC 740. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities.

As of December 31, 2013, the Company had no uncertain tax positions, or interest and penalties, that qualify for either recognition or disclosure in the financial statements.

With few exceptions, the Company is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2010.

Evaluation of Subsequent Events

The Company has evaluated subsequent events through February 18, 2014, which is the date the financial statements were available to be issued.

2. CONTRACTS RECEIVABLE

	December 31, 2013	December 31, 2012
Billed		
Completed contracts	$621,100	$500,600
Contracts in progress	2,146,100	1,931,500
Retained	976,300	866,200
Unbilled	121,600	105,400
	3,865,100	3,403,700
Less: Allowances for doubtful collections	75,900	69,600
	$3,789,200	$3,334,100

The total recorded investment in impaired contracts receivable recognized in accordance with FASB ASC 310, *Receivables*, was $125,000 in 2013 and $103,000 in 2012. These amounts also approximate the average recorded investment in impaired contracts receivable during the related periods. The allowance for credit losses associated with these receivables was $41,000 in 2013 and $38,000 in 2012. It is management's policy not to accrue interest income on impaired contracts receivable given past difficulties in collecting such amounts. Interest income on impaired contracts receivable of $1,452 and $1,107 was recognized for cash payments received in 2013 and 2012, respectively. For impairment recognized in conformity with of FASB ASC 310, the entire change in present value of expected cash flows is reported as bad debt expense in the same manner in which impairment initially was recognized or as a reduction in the amount of bad debt expense that otherwise would be reported.

Analysis of the changes in the allowance for doubtful collections.

	2013	2012
Balance at January 1	$69,600	$68,000
Additions charged to operations	6,300	1,100
Direct write-downs	—	500
Recoveries	—	—
Balance at December 31	$75,900	$69,600

Contracts receivable at December 31, 2013, include a claim, expected to be collected within one year, for $290,600 arising from a dispute with the owner over design and specification changes in a building currently under construction. The changes were made at the request of the owner to improve the thermal characteristics of the building and, in the opinion of counsel, gave rise to a valid claim against the owner.

The retained and unbilled contracts receivable at December 31, 2013, included $38,600 that was not expected to be collected within one year.

Contracts receivable include approximately $800,000 due under one contract.

3. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Following is a summary of contracts in progress at December 31, 2013 and 2012:

	2013	2012
Costs incurred on uncompleted contracts	$4,346,500	$3,165,400
Estimated earnings	651,600	506,100
	4,998,100	3,671,500
Less: Billings to date	5,083,200	3,792,600
	$(85,100)	$(121,100)
These amounts are included in accompanying consolidated balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$156,900	$100,600
Billings in excess of costs and estimated earnings on uncompleted contracts	(242,000)	(221,700)
	$(85,100)	$(121,100)

4. ADVANCES TO AND EQUITY IN JOINT VENTURE

The Company has a noncontrolling interest (one-third) in a general partnership joint venture formed to construct an office building. All of the partners participate in construction, which is under the general management of the Company. Summary information on the joint venture follows.

	December 31, 2013	December 31, 2012
Current assets	$483,100	$280,300
Construction and other assets	220,500	190,800
	703,600	471,100
Less: Liabilities	236,800	154,000
Net assets	$466,800	$317,100
Revenue	$3,442,700	$299,400
Net income	$149,700	$17,100
Company's interest		
Share of net income	$49,900	$5,700
Advances to joint venture	$50,000	$25,000
Equity in net assets	155,600	105,700
Total advances and equity	$205,600	$130,700

5. TRANSACTIONS WITH RELATED PARTY

The note receivable, related company, is an installment note bearing annual interest at 9 percent, payable quarterly, with the principal payable in annual installments of $25,000, commencing October 1, 2015.

The major shareholder of the Company owns the majority of the outstanding common stock of this related company, whose principal activity is leasing land and buildings. Alpha Contractors, Inc., rents land and office facilities from the related company on a 10-year lease ending September 30, 2021, for an annual rental of $19,000.

6. PROPERTY AND EQUIPMENT

	December 31, 2013	December 31, 2012
Assets		
Land	$57,500	$57,500
Buildings	262,500	262,500
Shop and construction equipment	827,600	727,600
Automobiles and trucks	104,400	89,100
Leased equipment under capital leases	300,000	300,000
	1,552,000	1,436,700
Accumulated depreciation and amortization		
Buildings	140,000	130,000
Shop and construction equipment	265,600	195,500
Automobiles and trucks	70,000	42,000
Leased equipment under capital leases	100,000	50,000
	575,600	417,500
Net property and equipment	$976,400	$1,019,200

7. ACCOUNTS PAYABLE

Accounts payable include amounts due to subcontractors, totaling $634,900 at December 31, 2013, and $560,400 at December 31, 2012, which have been retained pending completion and customer acceptance of jobs. Accounts payable at December 31, 2013, include $6,500 that is not expected to be paid within one year.

8. FINANCING ACTIVITIES

Line of Credit

The Company has a line of credit agreement with a bank of $1,500,000. There were no borrowings against the line at December 31, 2013 and 2012. The line bears interest at the bank's prime lending rate. The line is reviewed annually and is due on demand. Under terms of the line of credit, the Company is required to maintain a specified debt service coverage ratio and debt to tangible net worth ratio, as those terms are defined.

Notes Payable

Following is a summary of all notes payable:

	December 31, 2013	December 31, 2012
Unsecured note payable to Aztec Bank, due in quarterly installments of $22,575 plus interest at 1% over prime through June 2018.	$388,100	$478,400
Note payable to State Bank, collateralized by equipment[5] (carrying amount of $150,000), due in monthly installments of $1,667 plus interest at 10% through January 2018	80,000	100,000
	$468,100	$578,400
Current maturities	110,300	110,300
	$357,800	$468,100

Principal payments on note payables are due as follows.

Year ending December 31,

2014	$110,300
2015	$110,300
2016	$110,300
2017	$110,300
2018	$26,900

[5] Note: Terms and conditions related to the pledge of collateral should be disclosed as appropriate.

9. LEASE OBLIGATIONS PAYABLE

The Company leases certain specialized construction equipment under leases classified as capital leases. The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of December 31, 2013. The interest rate related to the lease obligation is 9.3% and the maturity date is January 2016.

Year ending December 31	
2014	$76,500
2015	76,500
2016	76,500
Total minimum lease payments	229,500
Less: Amount representing interest	31,900
Present value of minimum lease payments	$197,600

At December 31, 2013, the present value of minimum lease payments due within one year is $62,250.

Total rental expense, excluding payments on capital leases, totaled $86,300 in 2013 and $74,400 in 2012.

10. SURETY BONDS

The Company, as a condition for entering into some of its construction contracts, had outstanding surety bonds as of December 31, 2013 and 2012. The surety bonds are collateralized by certain contracts receivable and personally guaranteed by the stockholders of the Company.

11. INCOME TAXES AND DEFERRED INCOME TAXES

The provision for taxes on income consists of the following.

	December 31 2013	December 31, 2012
Current	$451,700	$300,900
Deferred	211,200	(75,900)
Total	$662,900	$225,000

The following represents the approximate tax effect of each significant type of temporary difference giving rise to the deferred income tax liability.

	December 31, 2013	December 31, 2012
Deferred tax asset:		
Employee benefits	$44,300	$38,100
Other	10,100	10,600
Total	$54,400	$48,700
Deferred tax liability:		
Earnings on uncompleted contracts	$594,000	$389,800
Property, plant, and equipment	64,300	54,100
Other	15,300	12,800
Total	$673,600	$456,700
Deferred tax liability, net	$619,200	$408,000

12. CONTINGENCIES

From time to time, the Company is involved in routine litigation that arises in the ordinary course of business. There are no pending significant legal proceedings to which the Company is a party for which management believes the ultimate outcome would have a material adverse effect on the Company's financial position.

The Company is contingently liable to a surety company under a general indemnity agreement. The Company agrees to indemnify the surety for any payments made on contracts of surety ship, guaranty, or indemnity. The Company believes that all contingent liabilities will be satisfied by their performance on the specific bonded contracts.

13. BACKLOG[6]

The following schedule shows a reconciliation of backlog representing the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress at December 31, 2013 and 2012, and from contractual agreements on which work has not yet begun.

Contract revenues on uncompleted contracts at December 31, 2012	$9,779,900
Contract adjustments	430,600
Contract revenues for new contracts, 2013	1,502,700
	11,713,200
Less: Contract revenue earned, 2013	9,630,800
Backlog at December 31, 2013	$2,082,400

In addition, between January 1, 2014, and February 18, 2014, the Company entered into additional construction contracts with revenues of $332,800.

14. UNION SPONSORED PENSION PLAN

The Company participates in a union-sponsored multiemployer defined benefit pension plan (ABC Pension Fund) that covers union employees. Contributions to the plan are based on a fixed rate per hour worked. The risks of participating in a multiemployer plan are different from single-employer plans in the following aspects:

a Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If the Company chooses to stop participating in the multiemployer plan, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

[6] A reconciliation for the year ending December 31, 2012 may also need to be disclosed depending upon the circumstances of a contractor and the needs of the financial statement users.

The Company's participation in the multiemployer plan for the annual periods ended December 31, 2013 and 2012 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2013 and 2012 is for the plan's year-end at December 31, 2012, and December 31, 2011, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the green zone are at least 80 percent funded. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		Contributions of Company		Expiration Date of Collective Bargaining Agreement
		2013	2012	2013	2012	
ABC	52-5599999-002	Green	Green	$550,000	$500,000	12/31/2016