

SAMPLE CONSTRUCTION COMPANY
INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sample Construction Company

We have audited the accompanying balance sheets of Sample Construction Company (the Company) as of December 31, 2006 and 2005, and the related statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Construction Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 19 through 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Spokane, Washington
February 2, 2007

SAMPLE CONSTRUCTION COMPANY
BALANCE SHEET

ASSETS

	December 31,	
	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,750,000	\$ 3,450,000
Contract receivables		
Trade	3,500,000	3,475,000
Retentions	1,300,000	1,425,000
Securities in escrow for contract retentions	300,000	400,000
Costs and estimated earnings in excess of billings on uncompleted contracts	610,000	550,000
Inventory	350,000	300,000
Refundable income taxes	-	50,000
Prepaid expenses	250,000	200,000
Deferred income taxes	100,000	-
	<u>10,160,000</u>	<u>9,850,000</u>
 Total current assets	 <u>10,160,000</u>	 <u>9,850,000</u>
 PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS		
Land	75,000	75,000
Equipment	10,950,000	9,950,000
Leasehold improvements	425,000	275,000
	<u>11,450,000</u>	<u>10,300,000</u>
 Total property, equipment, and leasehold improvements	 <u>11,450,000</u>	 <u>10,300,000</u>
 Less accumulated depreciation and amortization	 <u>7,950,000</u>	 <u>6,700,000</u>
 Net property, equipment, and leasehold improvements	 <u>3,500,000</u>	 <u>3,600,000</u>
 TOTAL ASSETS	 <u>\$ 13,660,000</u>	 <u>\$ 13,450,000</u>

SAMPLE CONSTRUCTION COMPANY
BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	2006	2005
CURRENT LIABILITIES		
Note payable	\$ 360,000	\$ 215,000
Accounts payable - trade	2,395,000	2,615,000
Accounts payable - retention	545,000	400,000
Accrued liabilities	850,000	750,000
Billings in excess of costs and estimated earnings on uncompleted contracts	1,060,000	1,200,000
Income taxes payable	50,000	-
Current maturities of long-term debt and obligations under capital leases	900,000	670,000
Deferred income taxes	-	100,000
	6,160,000	5,950,000
LONG-TERM LIABILITIES		
Long-term debt, net of current maturities	1,220,000	1,750,000
Obligations under capital leases, net of current maturities	180,000	300,000
Deferred income taxes	450,000	400,000
	1,850,000	2,450,000
Total liabilities	8,010,000	8,400,000
COMMITMENTS AND CONTINGENCIES (Notes 8, 9, and 11)		
STOCKHOLDERS' EQUITY		
Common stock, \$1 par value; 100,000 shares authorized, 50,000 shares issued and outstanding	50,000	50,000
Additional paid-in capital	150,000	150,000
Retained earnings	5,450,000	4,850,000
	5,650,000	5,050,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 13,660,000	\$ 13,450,000

SAMPLE CONSTRUCTION COMPANY
STATEMENT OF INCOME

	Years Ended December 31,			
	2006		2005	
	Amount	Percent	Amount	Percent
Contract revenues	\$ 43,500,000	100.0	\$ 39,750,000	100.0
Cost of contract revenues	38,250,000	87.9	35,200,000	88.6
Gross profit	5,250,000	12.1	4,550,000	11.5
General and administrative expenses	3,850,000	8.9	3,450,000	8.7
Income from operations	1,400,000	3.2	1,100,000	2.8
Other income (expense)				
Interest income	225,000	0.5	200,000	0.5
Interest expense	(250,000)	(0.6)	(300,000)	(0.8)
Other	(125,000)	(0.3)	(75,000)	(0.2)
Total other expense	(150,000)	(0.4)	(175,000)	(0.4)
Income before income taxes	1,250,000	2.9	925,000	2.3
Provision for income taxes	450,000	1.0	325,000	0.8
NET INCOME	\$ 800,000	1.8	\$ 600,000	1.5

SAMPLE CONSTRUCTION COMPANY
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares Outstanding</u>	<u>Amount</u>			
BALANCE, December 31, 2004	50,000	\$ 50,000	\$ 150,000	\$ 4,450,000	\$ 4,650,000
Net income	-	-	-	600,000	600,000
Dividends paid	-	-	-	(200,000)	(200,000)
BALANCE, December 31, 2005	50,000	50,000	150,000	4,850,000	5,050,000
Net income	-	-	-	800,000	800,000
Dividends paid	-	-	-	(200,000)	(200,000)
BALANCE, December 31, 2006	<u>50,000</u>	<u>\$ 50,000</u>	<u>\$ 150,000</u>	<u>\$ 5,450,000</u>	<u>\$ 5,650,000</u>

SAMPLE CONSTRUCTION COMPANY
STATEMENT OF CASH FLOWS

	Years Ended December 31,	
	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 800,000	\$ 600,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,300,000	1,200,000
Gain on sale of equipment	(30,000)	-
Deferred income taxes	(150,000)	100,000
Changes in assets and liabilities:		
Contract receivables	200,000	(180,000)
Costs and estimated earnings in excess of billings on uncompleted contracts	(60,000)	300,000
Inventory	(50,000)	125,000
Refundable income taxes	50,000	-
Prepaid expenses	(50,000)	-
Accounts payable	(75,000)	635,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(140,000)	500,000
Accrued liabilities	100,000	140,000
Income taxes payable	50,000	75,000
	<u>1,945,000</u>	<u>3,495,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and leasehold improvements	(1,200,000)	(500,000)
Proceeds from sale of equipment	30,000	-
	<u>(1,170,000)</u>	<u>(500,000)</u>

SAMPLE CONSTRUCTION COMPANY
STATEMENT OF CASH FLOWS

	Years Ended December 31,	
	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on note payable	\$ 145,000	\$ (935,000)
Proceeds from long-term debt	436,000	-
Repayment of long-term debt	(736,000)	(400,000)
Repayment of obligations under capital leases	(120,000)	(140,000)
Payment of dividends	(200,000)	(200,000)
	(475,000)	(1,675,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	300,000	1,320,000
Cash and cash equivalents, beginning of year	3,450,000	2,130,000
Cash and cash equivalents, end of year	\$ 3,750,000	\$ 3,450,000
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 250,000	\$ 300,000
Income taxes	\$ 500,000	\$ 275,000

SAMPLE CONSTRUCTION COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1 - Description of Operations and Summary of Significant Accounting Policies

Description of operations:

Sample Construction Company (the Company) is a general engineering contractor engaged in heavy highway construction in California, Oregon, and Washington. Work is performed primarily under fixed-price contracts with public agencies. These contracts are undertaken by the Company or in partnership with other contractors through joint ventures.

Operating cycle:

In accordance with normal practice in the construction industry, the Company includes in current assets and liabilities amounts realizable and payable over a period in excess of one year. Consistent with this practice, asset and liability accounts relating to construction contracts, including related deferred income taxes, are classified as current. The lives of the contracts entered into by the Company generally range from 3 to 18 months.

Revenue and cost recognition:

The Company recognizes revenues on construction contracts using the percentage-of-completion method of accounting, measured by the percentage of contract costs incurred to date to estimated total contract costs. This method is used because management considers total cost to be the best available measure of completion of construction contracts in progress. Provisions for estimated losses on construction contracts in progress are made in their entirety in the period in which such losses are determined without reference to the percentage complete. Changes in job performance, job conditions, and estimated profitability may result in revision to revenues and costs, and are recognized in the period in which the revisions are determined. Claims for additional revenues are not recognized until the period in which such claims are allowed. No profit is taken into income until a contract has reached a stage of completion sufficient to reasonably determine, in the opinion of management, the ultimate realizable profit. Base percentages range from 3% to 5%, depending on the type of contract.

Direct contract costs include all material, labor, and subcontractor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation. General and administrative costs are charged to expense as incurred.

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

Joint venture accounting:

The Company has a 45% interest in a joint venture for the construction of two tunnels. The Company records its investment in the partnership using the proportional (partial) consolidation method, whereby it computes its proportional interest in the venture's assets, liabilities, revenues, and expenses on a line-by-line basis and combines the amounts directly with its own accounts. All significant intercompany balances have been eliminated.

**SAMPLE CONSTRUCTION COMPANY
NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Description of Operations and Summary of Significant Accounting Policies
(Continued)**

Contract receivables:

Contract receivables from performing construction related services are based on contracted prices. The Company provides an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal contract receivables are due 30 days after the issuance of the invoice. Contract retentions are typically due 45 days after completion of the project and acceptance by the owner. Receivables past due more than 90 days are considered delinquent. The balance of contract receivables delinquent more than 90 days is approximately \$55,000 and \$35,000 at December 31, 2006 and 2005, respectively. Based on management's discretion, delinquent receivables may be charged interest. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

No provision for doubtful accounts has been made at December 31, 2006 and 2005, as management considers all amounts fully collectible.

Cash and cash equivalents:

The Company considers all short-term investments with maturity at date of purchase of three months or less to be cash equivalents. Short-term investments of \$3,150,000 and \$2,850,000 were included in cash equivalents at December 31, 2006 and 2005, respectively. The funds are invested in short-term certificates of deposit and are carried at market value.

Inventory:

Inventory of construction materials is valued at the lower of cost (determined on a first-in, first-out basis) or market.

Property, equipment, and leasehold improvements:

Property, equipment, and leasehold improvements are stated at cost and include major expenditures which increase productivity or substantially increase useful lives. Maintenance, repairs, and minor replacements are charged to expense when incurred. When equipment is sold or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts, and any gain or loss is included in the statements of income.

SAMPLE CONSTRUCTION COMPANY
NOTES TO FINANCIAL STATEMENTS

Note 1 - Description of Operations and Summary of Significant Accounting Policies
(Continued)

Property, equipment, and leasehold improvements (continued):

The cost of equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are amortized over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation and amortization are computed using the straight-line method for financial reporting purposes. The estimated useful lives and depreciation and amortization expense of equipment and leasehold improvements are as follows:

	Estimated Useful Lives	Depreciation and Amortization	
		2006	2005
Equipment	3 to 10 years	\$ 1,225,000	\$ 1,150,000
Leasehold improvements	3 to 15 years	75,000	50,000
		<u>\$ 1,300,000</u>	<u>\$ 1,200,000</u>

Depreciation and amortization expense allocated to cost of contract revenues and general and administrative expenses amounted to \$1,250,000 and \$50,000, respectively, for the year ended December 31, 2006, and \$1,150,000 and \$50,000, respectively, for the year ended December 31, 2005.

Valuation of long-lived assets:

The Company has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement addresses the accounting and reporting of all long-lived assets, except goodwill, that are either held and used, or disposed of through sale or other means. The Company, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. At December 31, 2006 and 2005, no assets had been written down.

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 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 changes in tax laws or rate are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Accelerated depreciation is used for tax reporting, and straight-line depreciation is used for financial statement reporting.

**SAMPLE CONSTRUCTION COMPANY
NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Description of Operations and Summary of Significant Accounting Policies
(Continued)**

Significant estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents, contract receivables, and securities invested in escrow for contract retentions. The Company's cash equivalents consist principally of money funds invested with a high credit quality financial institution. Generally, the cash equivalents are available on demand and are subject to minimal market risk. Contract receivables result from performance under construction contracts with numerous private parties and government agencies. Credit risk related to contract receivables is minimized by the Company's rights under lien laws on contracts subject to those laws.

Two customers accounted for 75% of the Company's contract revenue during the year ended December 31, 2006, and 61% of the Company's contracts receivable at December 31, 2006.

Joint venture partnerships subject the Company to additional risk because liability of the venture parties is generally joint and several. The Company's management mitigates this risk by only entering into joint ventures with companies they believe have significant financial resources.

Recently issued accounting standards:

In December 2003, the Financial Accounting Standards Board issued revised Interpretation (FIN) No. 46(R), *Consolidation of Variable Interest Entities*. This interpretation clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, and requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. This interpretation explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. The Company's management has determined that in applying the provisions of this interpretation that neither consolidation nor disclosure is required for the years ended December 31, 2006 and 2005.

SAMPLE CONSTRUCTION COMPANY
NOTES TO FINANCIAL STATEMENTS

Note 2 - Investment Participation in Joint Ventures

The Company has entered into a joint venture to construct two tunnels in the state of Washington. The Company is a 45% partner in the venture and all partners participate in construction, which is under the general management of the Company. Summary information in total for the joint venture is as follows (45% of the following amounts are included in the Company's balance sheet):

	<u>2006</u>	<u>2005</u>
Financial position		
Current assets	\$ 732,000	\$ 942,000
Equipment, net	<u>150,000</u>	<u>185,000</u>
	<u>\$ 882,000</u>	<u>\$ 1,127,000</u>
Current liabilities	\$ 600,000	\$ 925,000
Equity	<u>282,000</u>	<u>202,000</u>
	<u>\$ 882,000</u>	<u>\$ 1,127,000</u>
Results of operations		
Contract revenues	\$ 17,389,000	\$ 14,854,000
Cost of contract revenues	<u>15,333,000</u>	<u>13,254,000</u>
	<u>\$ 2,056,000</u>	<u>\$ 1,600,000</u>

The Company's share of profits and losses is 45%. The Company could be required to contribute additional capital to this entity under certain circumstances.

Note 3 - Costs and Estimated Earnings on Uncompleted Contracts

Revenues and costs recognized on uncompleted contracts contrast the related billings are as follows:

	<u>2006</u>	<u>2005</u>
Costs incurred on uncompleted contracts	\$ 13,050,000	\$ 12,200,000
Estimated earning thereon	<u>1,750,000</u>	<u>1,650,000</u>
	<u>14,800,000</u>	13,850,000
Less billings to date	<u>(15,250,000)</u>	<u>(14,500,000)</u>
	<u>\$ (450,000)</u>	<u>\$ (650,000)</u>

**SAMPLE CONSTRUCTION COMPANY
NOTES TO FINANCIAL STATEMENTS**

Note 3 - Costs and Estimated Earnings on Uncompleted Contracts (Continued)

Included in the accompanying balance sheets under the following captions:

	2006	2005
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 610,000	\$ 550,000
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,060,000)	(1,200,000)
NET OVERBILLING	\$ (450,000)	\$ (650,000)

Note 4 - Obligations under Capital Leases

Certain equipment is held under noncancelable capital leases. The cost of this equipment is being amortized using the straight-line method over the estimated lives of five years. The rates of interest implicit in the leases range from 7.0% to 10.0%. The investment in capital leases and accumulated amortization included in equipment is as follows at December 31:

	2006	2005
Equipment	\$ 600,000	\$ 600,000
Less accumulated amortization	320,000	200,000
	\$ 280,000	\$ 400,000

Minimum future lease payments and present value of the net minimum lease payments are as follows:

Years Ending December 31,		
2007		\$ 140,000
2008		90,000
2009		70,000
2010		60,000
		360,000
Less imputed interest		60,000
Present value of net minimum lease payments		300,000
Less current portion		120,000
		\$ 180,000

SAMPLE CONSTRUCTION COMPANY
NOTES TO FINANCIAL STATEMENTS

Note 5 - Note Payable

The Company has available a bank line of credit which provides for borrowings up to \$5,000,000 bearing interest at the bank's prime lending rate (6.00% at December 31, 2006). There was \$360,000 and \$215,000 outstanding under the line of credit at December 31, 2006 and 2005, respectively. The line is secured by accounts receivable and inventory. This line is also subject to financial covenants related to maintenance of tangible net worth and profitability and matures April 1, 2006. At December 31, 2006 and 2005, the Company was in compliance with all covenants.

Note 6 - Long-Term Debt

The following is a summary of long-term debt:

	<u>2006</u>	<u>2005</u>
Term loan payable to bank, monthly payments of \$25,000 plus interest at 7.6%, collateralized by specific equipment, matures March 2010.	\$ 1,000,000	\$ 1,300,000
Term loan payable to bank, monthly payments of \$30,000 plus interest at 7.5%, collateralized by specific equipment, matures October 2008.	640,000	1,000,000
Term loan payable to bank, monthly payments of \$10,000 plus interest at 7.5%, collateralized by specific equipment, matures December 2009.	<u>360,000</u>	<u>-</u>
Total long-term debt	2,000,000	2,300,000
Less current maturities	<u>780,000</u>	<u>550,000</u>
LONG-TERM DEBT, net of current maturities	<u>\$ 1,220,000</u>	<u>\$ 1,750,000</u>

**SAMPLE CONSTRUCTION COMPANY
NOTES TO FINANCIAL STATEMENTS**

Note 6 - Long-Term Debt (Continued)

Principal maturities of long-term debt for future years are as follows:

Years Ending December 31,	
2007	\$ 780,000
2008	700,000
2009	420,000
2010	<u>100,000</u>
	<u>\$ 2,000,000</u>

Note 7 - Income Taxes

The provision for federal and state income taxes for the years ended December 31, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
Current	\$ 600,000	\$ 225,000
Deferred	<u>(150,000)</u>	<u>100,000</u>
	<u>\$ 450,000</u>	<u>\$ 325,000</u>

The composition of the deferred income tax assets and liabilities at December 31, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
Current deferred income taxes:		
Gross deferred tax assets	\$ 100,000	\$ 75,000
Gross deferred tax liabilities	<u>-</u>	<u>(75,000)</u>
	<u>\$ 100,000</u>	<u>\$ -</u>
Noncurrent deferred income taxes:		
Gross deferred tax assets	\$ 200,000	\$ 300,000
Gross deferred tax liabilities	<u>(650,000)</u>	<u>(700,000)</u>
	<u>\$ (450,000)</u>	<u>\$ (400,000)</u>

SAMPLE CONSTRUCTION COMPANY NOTES TO FINANCIAL STATEMENTS

Note 7 - Income Taxes (Continued)

The significant temporary differences between the carrying amounts and tax bases of existing assets and liabilities that give rise to deferred tax assets and liabilities include investment in joint ventures, property and equipment, and certain liabilities. Deferred taxes are also recognized for operating losses and tax credits that are available to offset future taxable income.

The Company may be subject to the alternative minimum tax (AMT). The excess of AMT over regular tax is added to the regular tax. This excess is carried over to future years as a credit against regular tax until it is fully utilized. The credit cannot reduce the regular tax below AMT in any year.

Note 8 - Contingencies

In the ordinary course of business, the Company is a defendant in various legal proceedings. Resolution of these matters is not expected to have a material impact on the financial position or operations of the Company. A claim for \$445,000 has been filed against the Company and its bonding company arising out of failure of a subcontractor of the Company to pay its suppliers. In the opinion of counsel and management, the outcome of this claim will not have a material effect on the Company's financial position or results of operations.

The Company has filed a claim against a municipality for additional work in the amount of \$225,000 related to a paving contract. Proceeds from this claim will be recognized when resolved. Costs of the additional work have been expensed.

Note 9 - Commitments and Related Party Transactions

The Company leases equipment and yard facilities under long-term agreements from a stockholder. Lease expense recorded during the years ended December 31, 2006 and 2005, under these agreements was \$665,000 and \$520,000, respectively. The Company also leases various property and equipment from unrelated entities under long-term and month-to-month agreements. Lease expense incurred under these lease agreements during the years ended December 31, 2006 and 2005, totaled approximately \$94,000 and \$81,000, respectively. These leases are accounted for as operating-type leases.

**SAMPLE CONSTRUCTION COMPANY
NOTES TO FINANCIAL STATEMENTS**

Note 9 - Commitments and Related Party Transactions (Continued)

Minimum lease payments for future years are as follows:

Years Ending December 31,	<u>Stockholder</u>	<u>Other</u>	<u>Total</u>
2007	\$ 665,000	\$ 125,000	\$ 790,000
2008	680,000	125,000	805,000
2009	680,000	75,000	755,000
2010	700,000	25,000	725,000
2011	400,000	-	400,000
Thereafter	600,000	-	600,000
	<u>\$ 3,725,000</u>	<u>\$ 350,000</u>	<u>\$ 4,075,000</u>

Note 10 - Pension and Profit Sharing Plans

The Company has a defined contribution pension plan for nonunion employees. Employees may contribute 3% and the Company contributes 7% of basic compensation. The Company's contribution to the pension plan was \$200,000 and \$175,000 in 2006 and 2005, respectively. The Company also has a profit sharing plan covering the same employee group. Contributions to the profit sharing plan are made at the discretion of the Board of Directors and are expensed when declared. The Company's contribution to the profit sharing plan was \$230,000 and \$80,000 in 2006 and 2005, respectively.

The Company also contributes to various multi-employer defined benefit pension plans based on obligations arising from most of its collective bargaining agreements for union members. These plans provide retirement benefits to participants based on their service to contributing employers. The benefits are paid from assets held in trust for that purpose. Trustees are appointed in equal number by employers and unions. The trustees typically are responsible for determining the level of benefits to be provided to participants as well as for such matters as the investment of the assets and the administration of the plans. The Company contributed \$378,000 and \$297,000 to these plans for 2006 and 2005, respectively.

Based on the most recent information available to it, the Company believes that the present value of actuarial accrued liabilities in most or all of these multi-employer plans substantially exceeds the value of the assets held in trust to pay benefits. Although under-funding can result in the imposition of excise taxes on contributing employers, increased contributions can reduce under-funding so that excise taxes are not triggered. Moreover, if the Company were to exit certain markets or otherwise cease making contributions to these funds, the Company could trigger a substantial withdrawal liability. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably estimated, in accordance with generally accepted accounting principles.

SAMPLE CONSTRUCTION COMPANY NOTES TO FINANCIAL STATEMENTS

Note 11 - Backlog

The following schedule summarizes changes in backlog on contracts during the year ended December 31, 2006. Backlog represents the amount of revenues 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.

	<u>Contract Revenues</u>	<u>Gross Profit</u>	<u>Gross Profit Percent</u>
Balance, December 31, 2005	\$ 39,085,000	\$ 4,670,000	11.95
New contracts and contract adjustments	<u>10,150,000</u>	<u>1,265,000</u>	12.46
	49,235,000	5,935,000	12.05
Less contract revenue earned	<u>43,500,000</u>	<u>5,250,000</u>	12.07
Balance, December 31, 2006	<u>\$ 5,735,000</u>	<u>\$ 685,000</u>	11.94

In addition, the Company entered into additional contracts with estimated contract revenues of \$5,000,000 and estimated gross profits of \$600,000 between January 1, 2007, and February 2, 2007.

**SAMPLE CONSTRUCTION COMPANY
REVENUES FROM CONTRACTS**

	Year Ended December 31, 2006			Gross Profit Percent
	Contract Revenues	Cost of Contract Revenues	Gross Profit	
Completed contracts	\$ 30,700,000	\$ 27,125,000	\$ 3,575,000	11.6
Uncompleted contracts	12,800,000	11,250,000	1,550,000	12.1
Overapplied equipment costs	-	(125,000)	125,000	-
	\$ 43,500,000	\$ 38,250,000	\$ 5,250,000	12.1

	Year Ended December 31, 2005			Gross Profit Percent
	Contract Revenues	Cost of Contract Revenues	Gross Profit	
Completed contracts	\$ 26,025,000	\$ 22,995,000	\$ 3,030,000	11.6
Uncompleted contracts	13,725,000	12,105,000	1,620,000	11.8
Underapplied equipment costs	-	100,000	(100,000)	-
	\$ 39,750,000	\$ 35,200,000	\$ 4,550,000	11.5

**SAMPLE CONSTRUCTION COMPANY
COMPLETED CONTRACTS**

Job	Contract Description	Contract Totals		
		Revenues Earned	Cost of Revenues	Gross Profit (Loss)
2005	WSDOT - Highway 2 Tunnel	\$ 10,325,000	\$ 9,350,000	\$ 975,000
2006	WSDOT - Interstate 5 Bridge	11,450,000	10,100,000	1,350,000
2007	WSDOT - SR 520 Resurface	3,825,000	3,225,000	600,000
2008	King County - Bridge	2,175,000	2,000,000	175,000
2010	WSDOT - Highway 2 Resurface	4,225,000	3,700,000	525,000
2011	WSDOT - Interstate 5	1,650,000	1,550,000	100,000
2015	CALTRANS - Bridge	2,600,000	2,300,000	300,000
2016	CALTRANS - Tunnel	1,150,000	975,000	175,000
2020	Blaine County - Highway	1,600,000	1,400,000	200,000
2021	Spokane International Raceway	1,025,000	925,000	100,000
2022	Hillsboro Runway Addition	600,000	650,000	(50,000)
2024	Portland International Airport	1,400,000	1,025,000	375,000
	Contracts less than \$500,000	1,925,000	1,575,000	350,000
		<u>\$ 43,950,000</u>	<u>\$ 38,775,000</u>	<u>\$ 5,175,000</u>

**SAMPLE CONSTRUCTION COMPANY
COMPLETED CONTRACTS**

Prior to January 1, 2006			Year Ended December 31, 2006		
Revenues Earned	Cost of Revenues	Gross Profit	Revenues Earned	Cost of Revenues	Gross Profit (Loss)
\$ 1,100,000	\$ 1,050,000	\$ 50,000	\$ 9,225,000	\$ 8,300,000	\$ 925,000
3,675,000	3,250,000	425,000	7,775,000	6,850,000	925,000
950,000	775,000	175,000	2,875,000	2,450,000	425,000
350,000	325,000	25,000	1,825,000	1,675,000	150,000
2,800,000	2,450,000	350,000	1,425,000	1,250,000	175,000
350,000	325,000	25,000	1,300,000	1,225,000	75,000
1,400,000	1,250,000	150,000	1,200,000	1,050,000	150,000
125,000	100,000	25,000	1,025,000	875,000	150,000
750,000	675,000	75,000	850,000	725,000	125,000
275,000	250,000	25,000	750,000	675,000	75,000
75,000	75,000	-	525,000	575,000	(50,000)
675,000	500,000	175,000	725,000	525,000	200,000
725,000	625,000	100,000	1,200,000	950,000	250,000
<u>\$ 13,250,000</u>	<u>\$ 11,650,000</u>	<u>\$ 1,600,000</u>	<u>\$ 30,700,000</u>	<u>\$ 27,125,000</u>	<u>\$ 3,575,000</u>

SAMPLE CONSTRUCTION COMPANY

UNCOMPLETED CONTRACTS

Contract		Total Contract				From Inception	
Job No.	Description	Contract Price	Contract Costs	Gross Profit (Loss)	Gross Profit Percent	Revenues Earned	Cost of Revenues
2026	WSDOT - Interstate 90 - J.V.	\$ 5,275,000	\$ 4,650,000	\$ 625,000	11.9	\$ 4,850,000	\$ 4,275,000
2027	Port of Seattle - J.V.	3,500,000	3,100,000	400,000	11.4	2,975,000	2,625,000
2101	CALTRANS - Miller Bridge	3,280,000	3,050,000	230,000	7.0	1,575,000	1,450,000
2030	WSDOT - HOV Expansion	1,640,000	1,475,000	165,000	10.1	1,525,000	1,375,000
2102	CALTRANS - Willows Resurface	2,050,000	1,750,000	300,000	14.6	1,000,000	850,000
2103	City of Los Angeles - Stadium	1,575,000	1,400,000	175,000	11.1	850,000	750,000
2105	Multnomah County - Bridge	1,190,000	950,000	240,000	20.2	750,000	600,000
2106	Lane County Bypass	1,000,000	1,100,000	(100,000)	(10.0)	640,000	740,000
Various	Contracts less than \$500,000	1,025,000	625,000	400,000	39.0	635,000	385,000
		\$ 20,535,000	\$ 18,100,000	\$ 2,435,000	16.5	\$ 14,800,000	\$ 13,050,000

**SAMPLE CONSTRUCTION COMPANY
UNCOMPLETED CONTRACTS**

to January 1, 2006		At December 31, 2006				Year Ended December 31, 2006		
Gross Profit (Loss)	Billed to Date	Cost to Complete	Percent Complete	Cost and Estimated Earnings in Excess of Billings	Billings in Excess of Costs and Estimated Earnings	Revenues Earned	Cost of Revenues	Gross Profit (Loss)
\$ 575,000	\$ 4,775,000	\$ 375,000	92%	\$ 75,000	\$ -	\$ 4,050,000	\$ 3,550,000	\$ 500,000
350,000	3,005,000	475,000	85%	-	30,000	2,225,000	1,950,000	275,000
125,000	2,195,000	1,600,000	48%	-	620,000	1,575,000	1,450,000	125,000
150,000	1,250,000	100,000	93%	275,000	-	1,075,000	975,000	100,000
150,000	1,250,000	900,000	49%	-	250,000	1,000,000	850,000	150,000
100,000	1,000,000	650,000	54%	-	150,000	850,000	750,000	100,000
150,000	500,000	350,000	63%	250,000	-	750,000	600,000	150,000
(100,000)	650,000	360,000	67%	-	10,000	640,000	740,000	(100,000)
250,000	625,000	240,000	62%	10,000	-	635,000	385,000	250,000
<u>\$ 1,750,000</u>	<u>\$ 15,250,000</u>	<u>\$ 5,050,000</u>		<u>\$ 610,000</u>	<u>\$ 1,060,000</u>	<u>\$ 12,800,000</u>	<u>\$ 11,250,000</u>	<u>\$ 1,550,000</u>

SAMPLE CONSTRUCTION COMPANY
COSTS OF CONTRACT REVENUES AND GENERAL AND ADMINISTRATIVE
EXPENSES

	Years Ended December 31,			
	2006		2005	
	Amount	Percent	Amount	Percent
COST OF CONTRACT REVENUES				
Construction materials	\$ 11,300,000	26.0	\$ 10,200,000	25.7
Direct labor	7,600,000	17.5	7,050,000	17.7
Subcontractors	11,550,000	26.6	10,900,000	27.4
Equipment	4,000,000	9.2	3,500,000	8.8
Depreciation and amortization	1,250,000	2.9	1,150,000	2.9
Other indirect and yard expenses	2,550,000	5.9	2,400,000	6.0
	\$ 38,250,000	87.9	\$ 35,200,000	88.6
GENERAL AND ADMINISTRATIVE EXPENSES				
Salaries and employee expenses	\$ 2,475,000	5.7	\$ 2,225,000	5.6
Office expenses	400,000	0.9	375,000	0.9
Insurance	375,000	0.9	350,000	0.9
Professional services	125,000	0.3	125,000	0.3
Taxes and permits	225,000	0.5	200,000	0.5
Travel and entertainment	100,000	0.2	75,000	0.2
Estimating	75,000	0.2	50,000	0.1
Depreciation and amortization	50,000	0.1	50,000	0.1
Other	25,000	0.1	-	-
	\$ 3,850,000	8.9	\$ 3,450,000	8.7

**SAMPLE CONSTRUCTION COMPANY
CONTRACT AND RETENTION RECEIVABLE**

		December 31, 2006						
Job	Current	31 to 60 Days	61 to 90 Days	Over 90 Days	Total Contract Receivable	Total Retention Receivable		
WSDOT	2005	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250,000	
WSDOT	2006	-	-	-	-	-	500,000	
Hillsboro Airport	2022	-	-	-	50,000	50,000	30,000	
WSDOT	2026	712,000	200,000	8,000	-	920,000	242,000	
Port of Seattle	2027	500,000	450,000	25,000	-	975,000	-	
WSDOT	2030	60,000	-	3,000	-	63,000	76,000	
Caltrans	2101	525,000	-	-	-	525,000	79,000	
Caltrans	2102	225,000	-	-	-	225,000	50,000	
Los Angeles	2103	115,000	-	-	-	115,000	-	
Multnomah County	2105	60,000	38,000	-	-	98,000	37,000	
Lane County	2106	400,000	50,000	-	-	450,000	-	
Other contract and retention receivable under \$30,000		52,000	10,000	12,000	5,000	79,000	36,000	
TOTAL		\$2,649,000	\$ 748,000	\$ 48,000	\$ 55,000	\$3,500,000	\$ 1,300,000	

SAMPLE CONSTRUCTION COMPANY
ACCOUNTS AND RETENTION PAYABLE

	December 31, 2006					
	Current	31 to 60 Days	61 to 90 Days	Over 90 Days	Total Accounts Payable	Total Retention Payable
ABC Supply, Inc.	\$ 30,000	\$ -	\$ -	\$ -	\$ 30,000	\$ -
Action Paving, Inc.	976,000	-	-	-	976,000	250,000
Avery Sand and Gravel	455,000	47,000	10,000	-	512,000	200,000
Dependable Transportation	276,000	10,000	-	-	286,000	-
Jim's Repair Service	171,000	-	-	-	171,000	-
Kat Heavy Equipment	33,000	-	-	-	33,000	-
Oregon Auto Parts	40,000	-	-	-	40,000	-
S.P. Oil Company	35,000	-	-	-	35,000	-
Smith Concrete, Inc.	-	-	-	-	-	55,000
Western Hauling Company	28,000	-	-	-	28,000	-
Other accounts and retention payable under \$25,000	284,000	-	-	-	284,000	40,000
TOTAL	\$ 2,328,000	\$ 57,000	\$ 10,000	\$ -	\$ 2,395,000	\$ 545,000