Guide to Contractor Financial Statements



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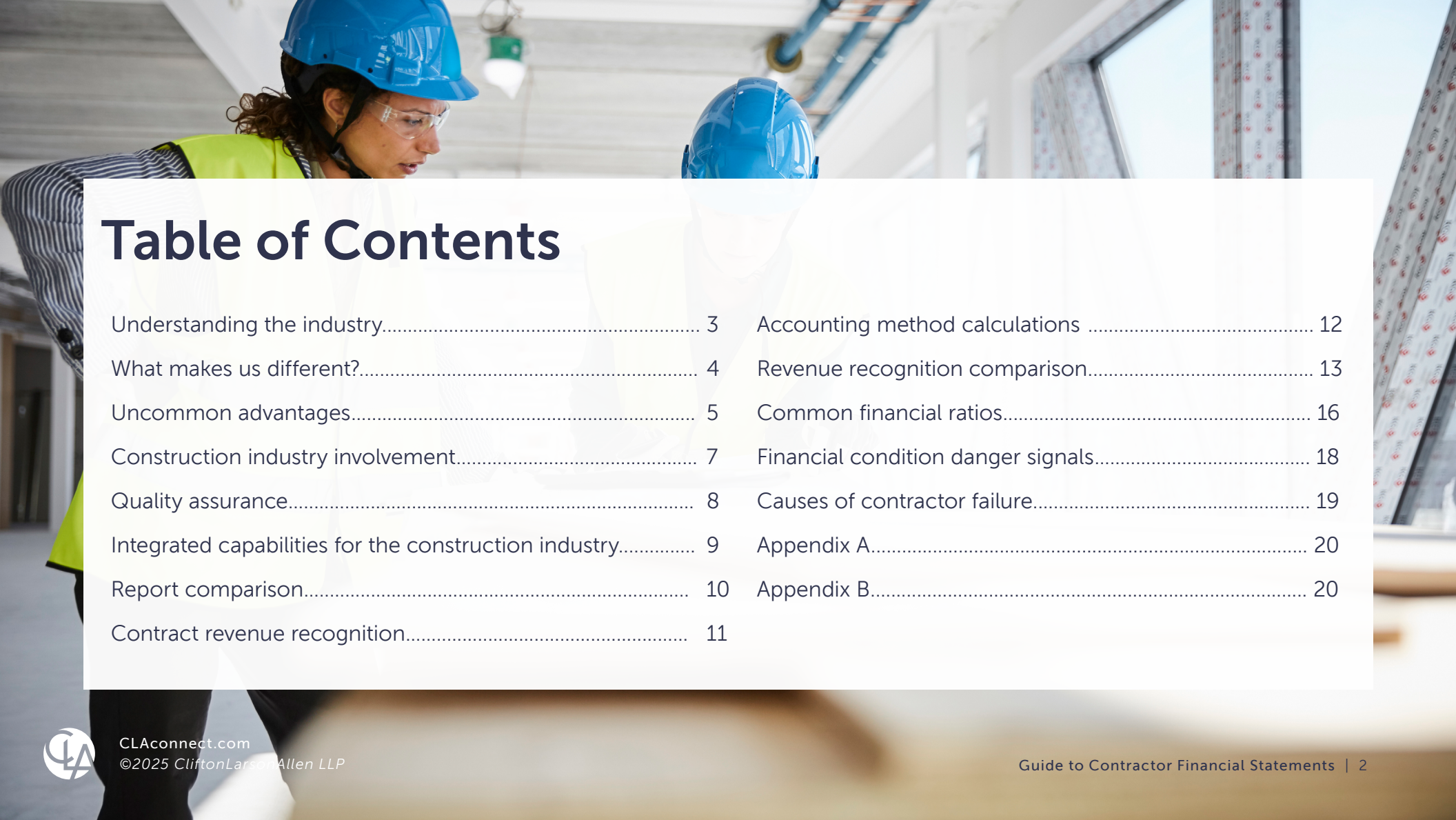


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Understanding the Industry

Contractors face extremely complex challenges. To thrive, you need to foresee and nimbly adapt to industry changes in key areas:

- Infrastructure spending and timing of funding
- Rapidly evolving technology, both in the office and on the worksite
- Supply chain disruptions, increased pricing, and employee resource issues
- Reimagined commercial and residential spaces and use of technology
- Cybersecurity risks
- Ownership and leadership transition issues
- Measuring and understanding key performance indicators distinct to construction
- Many other industry-specific matters

You need trusted advisors, and you don't have time to teach them about the intricacies of your industry. With CLA's deep industry experience, top ratings among accounting firms, and a team dedicated to serving contractors, we can help you efficiently address complexity — so together we can focus on creating opportunities.



7,500+
construction clients

500+
construction professionals

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What Makes Us Different?

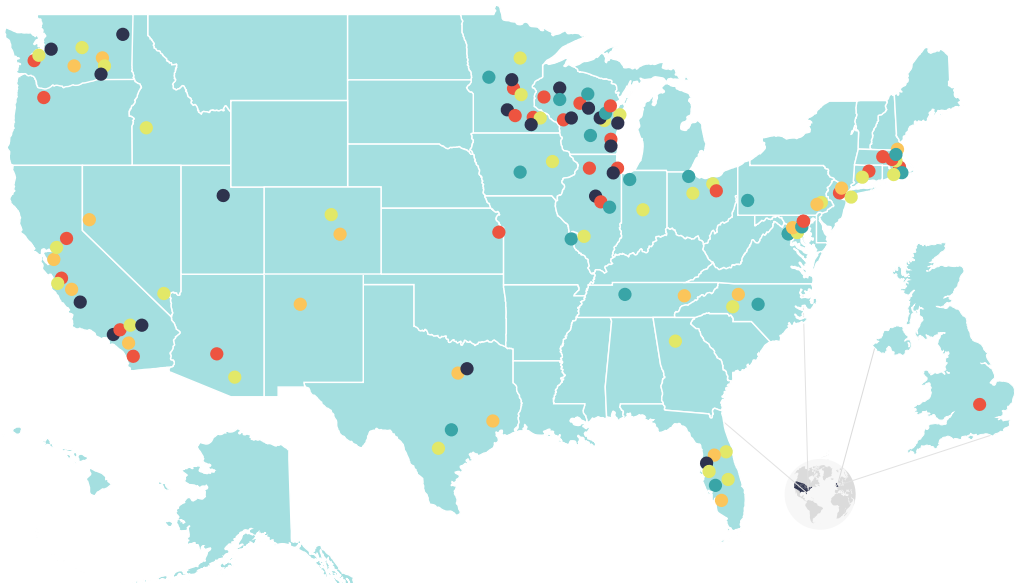
We promise to know you and help you

With CLA by your side, you can find everything you need in one firm. Professionally or personally, big or small, we can help you discover opportunities and achieve more than you believed possible.

9,000
NEARLY 9,000 PEOPLE

130+
LOCATIONS

AN INDEPENDENT NETWORK MEMBER OF
CLA Global



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Uncommon Advantages

Deep industry specialization

Our people are, first and foremost, industry practitioners. You will work with professionals who know you, your organization, and your industry. We combine their knowledge with yours to make you stronger.

Seamless, integrated capabilities

We offer planning and guidance from startup through succession, with a particular care for the people behind the enterprise. Your team connects with a broad network of resources behind the scenes to support you.

Premier resource

We place you — personally — at the core of our strategic focus because your success means a better world for all of us.

Inspired careers

Our team members are personally invested in your success. You will work with entrepreneurial people who are constantly developing capabilities to help you meet any challenge you face.

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Strategic Support for Contractors

Contractors

We serve an array of contractors including commercial building, highway and heavy, homebuilders, subcontractors, as well as architects and engineers. We've helped construction companies navigate business challenges and opportunities.

Civil contractors

We help civil contractors better understand their business value through ROI insights, equipment utilization, and industry-specific guidance. Our strong surety relationships support bonding and liquidity needs, while our experience in lease vs. buy decisions offers tailored financing strategies.

Deep industry connections

You can expect original, relevant strategies and advice made possible by the depth of our participation in the industry and with professional organizations. You'll benefit from our industry-specialized team, including the certified construction industry financial professionals (CCIFPs) we have on staff.

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Construction Industry Involvement

Our construction professionals not only hold national committee positions with CFMA, AGC, and NASBP, but our firm is actively involved in various construction trade associations both at the national and local levels and presents for several of the organizations shown here. This focus helps our professionals help you.



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Quality Assurance

CLA is committed to maintaining among the highest standards of quality and professionalism. We are a member of the AICPA's Private Companies Practice Section, which maintains strict membership requirements and closely monitors, through peer reviews, overall professional excellence and quality of services rendered.

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Integrated Capabilities for the Construction Industry

Audit, review, and accounting services

- Financial statement audits and reviews
- Compiled financial statements
- Employee benefit plans
- Consulting and assistance related to accounting processes

Industry-specialized tax consulting

- Federal tax consulting, including energy incentives deductions and credits, and research and experimentation credits
- Accounting methods and tax elections
- State and local tax advisory
- International tax advisory

Outsourcing

- Business operations: part-time, long-term support
- Custom client accounting and advisory: full-time and interim support
- Executive search
- Specialized advisory: valuation, telecom, fraud, and info security

Specialized industry consulting

- Construction costs: evaluating cost of work and billing
- Sustainability: planning, KPIs, and continuity
- Operations: revenue sources and expense management
- Information systems: software selection and implementation

Wealth advisory

- Financial retirement planning
- Business succession planning and merger and acquisition consulting
- Employee benefit plan design, management, compliance, and consulting
- Insurance and risk management

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Report Comparison

Although there are three levels of reports available to contractors, the review is the level of reporting typically required by most banks, surety companies, and creditors. The chart below indicates some of the procedures required to be performed by a certified public accounting firm for each of the levels of reporting.

Procedures performed	Audit	Review	Compilation
Determine nature of business	»	»	»
Determine basis of accounting	»	»	»
Evaluate qualifications of client personnel	»	»	»
Present financial statement disclosures	»	»	
Obtain management representation letter	»	»	
Inquire about client policies and processes	»	»	
Inquire about account activities and balances	»	»	
Inquire regarding cut-offs and contingencies	»	»	
Perform analytical procedures	»	»	
Confirmations of contracts and account balances	»		
Perform further attest procedures	»		
Review and evaluate internal control structure	»		
Form and state opinion on financial statements	»		

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Contract Revenue Recognition



Percentage-of-completion method

- Recognizes income throughout the contract's life
- Calculates the extent of work completed based most often on costs incurred to date as a percentage of total expected costs
- Using this method, one must be able to make a "reasonably dependable estimate" regarding progress

Completed contract method

- Defers income recognition until a job is substantially completed
- Should be used only when either of the following conditions exist:
  - Financial results do not vary materially from those achieved under the percentage-of-completion method
  - Contractor can overcome the basic presumption that estimates are reasonably dependable, or there are serious questions regarding the viability of the contract

Other methods

Contractors sometimes use other methods for long-term contracts that are not generally accepted, including the cash method of accounting and the accrual method of accounting. Under both, the lack of proper matching of contract progress to contract billings or receipts usually causes substantial variances in income recognition.

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Accounting Method Calculations

Percentage-of-completion calculation

	A	B	C	D	E	F	G	H	I
	Management's current estimate of:								
Contract No.	Total Contract Revenue	Total Direct Contract Costs	Total Gross Profit	Percent Complete	Contract Billings To Date	Under (Over) Billings	Earned Contract Revenue	Direct Contract Costs To Date	Gross Profit To Date
1	$ 2,000	$ 1,600	$ 400	25%	$ 475	$ 25	$ 500	$ 400	$ 100
2	2,000	1,600	400	20%	475	(75)	400	320	80
Totals	**$ 4,000**	**$ 3,200**	**$ 800**		**$ 950**	**$ (50)**	**$ 900**	**$ 720**	**$ 180**

Legend:

A. Amount of original contract plus approved change orders
B. Contractor's current estimate of total construction costs
C. Contractor's current estimate of gross profit (A – B)
D. Ratio of costs to date to total estimated costs (H / B)
E. Total amount billed on contract at the balance sheet date
F. Amount of billings to date that differs from estimated revenue earned (G – E)
G. Financial statement revenue earned to date (H + I)
H. Total costs incurred on contract at the balance sheet date
I. Total gross profit earned to date (C x D)

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Revenue Recognition Comparison

The following page illustrates the effect of the different methods of accounting used by a contractor. Below is some basic contract data used in the calculations and presentation on page 14.

Contract amount	$ 1,400
Total estimated costs	1,000
Bilings to date	500
Costs incurred to date	300
Contract receipts to date	350
Contract costs paid to date	180

	Management's current estimate of:								
Contract No.	Total Contract Revenue	Total Direct Contract Costs	Total Gross Profit	Percent Complete	Contract Billings To Date	Under (Over) Billings	Earned Contract Revenue	Direct Contract Costs To Date	Gross Profit To Date
1	$ 1,400	$ 1,000	$ 400	30%	$ 500	$ (80)	$ 420	$ 300	$ 120

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As illustrated below, the contractor's balance sheet and income statement vary significantly, depending on the method of accounting used. Key financial differences that are affected include working capital, equity, and results of operations.

Balance Sheet
December 31, 20xx
(in thousands)

ASSETS	Cash method	Accrual method	Completed contract method	Percentage of completion method
Cash	$ 170	$ 170	$ 170	$ 170
Contract receivables	-0-	150	150	150
Costs and estimated gross profit in excess of billings	-0-	-0-	-0-	-0-
Work in progress	-0-	-0-	300	-0-
Total assets	**$ 170**	**$ 320**	**$ 620**	**$ 320**
LIABILITIES AND EQUITY				
Accounts payable	$ -0-	$ 120	$ 120	$ 120
Billings in excess of costs and estimated gross profit	-0-	-0-	-0-	80
Progress billings	-0-	-0-	500	-0-
Total liabilities	-0-	120	620	200
Equity	170	200	-0-	120
Total liabilities and equity	**$ 170**	**$ 320**	**$ 620**	**$ 320**

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Income Statement

For the Year Ended December 31, 20xx
(in thousands)

	Cash method	Accrual method	Completed contract method	Percentage of completion method
Contract revenue	$ 350	$ 500	$ -0-	$ 420
Contract costs	180	300	-0-	300
Gross profit	**$ 170**	**$ 200**	**$ -0-**	**$ 120**



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Common Financial Ratios

Banks, sureties, and other creditors use common financial ratios to evaluate a contractor, as illustrated below.

Liquidity Measures

Type	Description	Calculations	Result	Typical Range
Accounts receivable turnover	= A/R x 360 / Annual revenue	= 1,285,920,000 / 18,495,000	= 70 days	60 days or less
Accounts payable turnover	= A/P x 360 / Cost of earned revenue	= 578,880,000 / 16,441,000	= 35 days	45 days or less
Current ratio	= Current assets / Current liabilities	= 4,982,000 / 3,404,000	= 1.5	> 1.2 times
Working capital to backlog	= Working capital / Cost to complete backlog	= 1,578,000 / 16,865,000	= 9%	5% to 10% or >



Profitability Measures

Type	Description	Calculations	Result	Typical Range
Gross profit to sales	= Gross profit / Annual revenue	= 2,054,000 / 18,495,000	11%	Varies by industry
Overhead to sales	= G & A expense / Annual revenue	= 1,195,000 / 18,495,000	6%	Varies by industry
Overhead to net worth	= G & A expense / Net worth	= 1,195,000 / 3,266,000	37%	60% or less
Net profit before taxes to sales	= Net profit before taxes / Annual revenue	= 890,000 / 18,495,000	48%	2% or greater
Return on equity	= Net profit before taxes / Net worth of prior year	= 890,000 / 3,020,500	29%	15% or greater

Net Worth Measures

Type	Description	Calculations	Result	Typical Range
Debt to net worth	= Total debt / Net worth	= 441,000 / 3,266,000	.14	3.5 or less
Fixed assets to net worth	= Fixed assets / Net worth	= 2,140,000 / 3,266,000	66%	Varies by industry
Net worth to backlog	= Net worth / Cost to complete backlog	= 3,266,000 / 16,865,000	19%	5% to 10% or >
Sales to net worth	= Annual revenue / Net worth	= 18,495,000 / 3,266,000	5.7	20 or less

Financial Condition Danger Signals

Analytics and management inquiries can reveal clear danger signals in a contractor's financial condition, such as:

Accounts receivable and payable aged past due dates	Substantial costs in excess on high-percentage complete projects	Large balances of non-productive assets
Large past-due balances in accrued liabilities	Incomplete or nonexistent contract disclosure on financial statements	Historical inability to predict final contract profit accurately
Substantial decreases in contract backlog volume and gross profit	Negative trends of financial ratios	Employee turnover or loss of key management



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Causes of Contractor Failure

Conditions that can lead to contractor failure vary, but often there are several common traits. Individually, these traits may not be alarming, but together they increase the risk of failure:

Substantial increase in job size	Owner(s) inability to recapitalize during loss years	Expansion into new geographical areas	Accepting contracts outside area of expertise	Changes in key personnel
Undercapitalization or lack of credit	Inadequate working capital	Poor estimating	Slow billing and change-order processing	Sluggish follow-through on collections

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Appendix A

Example Financial Statements
Financial Statements and Supplementary Information for the year ended December 31, 20XX

EXAMPLE CONSTRUCTION COMPANY, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 20XX

EXAMPLE CONSTRUCTION COMPANY, INC.
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EXAMPLE CONSTRUCTION COMPANY, INC.
BALANCE SHEET
DECEMBER 31, 20XX

ASSETS

CURRENT ASSETS	
Cash	$ 778,000
Contract Receivables	5,862,000
Contract Assets	3,248,000
Prepaid Expenses	3,000
Total Current Assets	9,891,000
PROPERTY AND EQUIPMENT, NET	121,000
OPERATING RIGHT-OF-USE ASSET, NET	131,000
Total Assets	$ 10,143,000

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts Payable	$ 5,468,000
Accrued Liabilities	142,000
Contract Liabilities	820,000
Line of Credit	311,000
Current Lease Liability - Operating	94,000
Current Portion of Notes Payable	186,000
Total Current Liabilities	7,021,000
LONG-TERM DEBT	
Long-Term Lease Liabilities - Operating (Less Current Portion)	37,000
Notes Payable, Less Current Portion	500,000
Stockholder Note Payable	54,000
Total Long-Term Debt	591,000
Total Liabilities	7,612,000
STOCKHOLDERS' EQUITY	
Common Stock: Par Value $1 per Share, 1,000 Shares Authorized, Issued, and Outstanding	1,000
Additional Paid-In Capital	60,000
Retained Earnings	2,470,000
Total Stockholders' Equity	2,531,000
Total Liabilities and Stockholders' Equity	$ 10,143,000

See accompanying Notes to Financial Statements.

EXAMPLE CONSTRUCTION COMPANY, INC.
STATEMENT OF INCOME AND STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 20XX

CONTRACT REVENUE	$ 23,955,000
CONTRACT COSTS	19,196,000
GROSS PROFIT FROM CONTRACTING	4,759,000
GENERAL AND ADMINISTRATIVE EXPENSES	2,170,000
INCOME BEFORE OTHER INCOME (EXPENSE)	2,589,000
OTHER INCOME (EXPENSE)	
Interest Income	7,000
Interest Expense	(165,000)
Total Other Expense	(158,000)
NET INCOME	2,431,000
Retained Earnings - Beginning of Year	89,000
Stockholders' Distributions	(50,000)
RETAINED EARNINGS - END OF YEAR	$ 2,470,000

See accompanying Notes to Financial Statements.

EXAMPLE CONSTRUCTION COMPANY, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 20XX

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Income	$ 2,431,000
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	65,000
(Increase) Decrease in:	
Contract Receivables	(4,233,000)
Contract Assets	(2,766,000)
Increase (Decrease) in:	
Accounts Payable	4,629,000
Accrued Liabilities	(500)
Contract Liabilities	542,000
Net Cash Provided by Operating Activities	667,500
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash Paid for Equipment	(31,000)
Net Cash Used by Investing Activities	(31,000)
CASH FLOWS FROM FINANCING ACTIVITIES	
Draws on Line of Credit	292,000
Payments on Line of Credit	(20,000)
Principal Payments on Long-Term Debt	(278,000)
Stockholders' Distributions	(50,000)
Net Cash Used by Financing Activities	(56,000)
NET INCREASE IN CASH	580,500
Cash - Beginning of Year	197,500
CASH - END OF YEAR	$ 778,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash Paid for Interest	$ 165,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Equipment Purchases Financed Through Debt	$ 65,000

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following items comprise the significant accounting policies of Example Construction Company, Inc. (the Company). The policies reflect industry practices and conform to accounting principles generally accepted in the United States of America.

Nature of Organization

The Company is a licensed general contractor working in the commercial, power, and renewable energy industries. The work is performed primarily under fixed-price bid contracts. The Company operates in commercial markets throughout the United States.

Use of Estimates

The preparation of the 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 consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Management periodically evaluates estimates used in the preparation of the combined financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation. It is reasonably possible that changes may occur in the near term that would affect management's estimates with respect to the percentage of completion method, allowance for credit losses, and accrued expenses.

The Company experienced changes in job performance, job conditions and estimated profitability on certain contracts in progress at January 1, 20XX. The changes had the impact of decreasing 20XX gross profit by approximately $350,000, determined by applying the revised percentages of completion as of January 1, 20XX to the final or revised estimated contract gross profit.

Financial Statement Classification

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 are classified as current. The lives of contracts entered into by the Company are approximately one year.

Cash

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract Receivables and Credit Policy

Accounts receivable from performing construction are based on contracted prices. The Company provides an allowance for uncollectible accounts which is based upon a combination of historical loss experience, current economic conditions, and forward-looking information to estimate credit losses. The Company reviews its estimate of expected credit losses on a regular basis adjusting as necessary based on changes in economic conditions, customer creditworthiness, and other factors. Any changes in the estimate of expected credit losses are recorded as an adjustment to receivable balances and are reflected in the statement of operations. At December 31, 20XX, the Company had recorded an allowance for credit losses related to contract receivables of $-0-. Normal contracts receivable are due 30 to 90 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 typically considered delinquent. Delinquent receivables are written off based on individual credit valuation and specific circumstances of the customer. If there is a deterioration of a major customer's creditworthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due to the Company could be adversely affected.

The Company follows the practice of filing liens within the statutory time frame on construction projects for which collection problems are anticipated. The liens act as security for collection of contract receivables and have the effect of restricting the customer's ability to subsequently transfer title to the constructed property and to obtain certain kinds of financing without first satisfying the lien.

Property and Equipment

Property and equipment, carried at cost, is depreciated over the estimated useful life of the related asset. Costs of repairs and maintenance are charged to expense. Upon retirement or disposal of property and equipment, the costs and related depreciation are removed from the accounts, and gains or losses, if any, are reflected in the earnings for financial and income tax reporting purposes. Depreciation is provided for under the straight-line method for financial reporting and accelerated methods for income tax reporting. The estimated useful lives used for calculating depreciation for property and equipment are as follows:

Vehicles	5 Years
Office Equipment	5 Years
Construction Equipment	5 to 7 Years

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. There were no impairment losses recognized for long-lived assets as of December 31, 20XX.

Leases

The Company leases office space and vehicles. The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on the balance sheet.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most leases do not provide an implicit rate, the Company uses their IBR (Incremental Borrowing Rate) based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right-of-use assets on the balance sheet.

The Company has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating contracts to determine if they qualify as a lease, the Company considers factors such as if the Company has obtained substantially all of the rights to the underlying asset through exclusivity, if the Company can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

In allocating consideration in the contract to the separate lease components and the nonlease components, the Company uses the standalone prices of the lease and nonlease components. Observable standalone prices are used, if available. If the standalone price for a component has a high level of variability or uncertainty, this allocation may require significant judgment.

Revenue and Cost Recognition

Construction contracts:

The Company recognizes construction contract revenue over time, as performance obligations are satisfied, due to the continuous transfer of control to the customer. Construction contracts are generally accounted for as a single performance obligation. Revenue is recognized using the percentage-of-completion method, based primarily on contract cost incurred to date compared to total estimated contract cost for each performance obligation. Management believes that the percentage-of-completion method is the most accurate measurement of progress to date on its performance obligations. Contract revenue earned for each performance obligation is calculated as the amount of contract costs incurred plus the amount of gross profit recognized times the percentage of completion.

Contract costs include all direct material, labor and related labor costs, subcontract, and other directly assignable costs. Indirect costs and general and administrative costs are charged to expense as incurred. Changes to total estimated contract cost or losses, if any, are recognized in the period in which they are determined as assessed at the contract level. Pre-contract costs are expensed as incurred unless they are expected to be recovered from the client.

Up-front contract costs such as mobilization, certain insurance premiums, training costs, and other costs that management believes does not result in progress toward completion of a performance obligation, and are reasonably expected to be reimbursed, are capitalized and amortized over the duration of the contract. All other up-front costs are expensed to contracts as incurred. Customer payments on construction contracts are typically due within 30 to 90 days of billing, depending on the contract.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Cost Recognition (Continued)

Contract assets and liabilities:

The Company's contracts allow for progress payments to bill the customer as contract costs are incurred. Oftentimes, the customer retains a portion of payment until satisfactory completion of the contract, which is referred to as retention. This amount varies on a contract by contract basis. Additionally, the Company records an asset for work completed to date which is in excess of the amount billed to customers, either as costs and estimated profit in excess of billings or unbilled receivables. Retainage receivables, unbilled receivables, and costs and earnings in excess of billings on uncompleted contracts are presented as components of contract assets on the balance sheet as of December 31, 20XX (see Note 2). From time to time, the Company is able to bill customers in excess of work completed to date. The Company has recorded a liability as of December 31, 20XX for these excess billings, which is presented as a contract liability on the balance sheet (see Note 2). Management anticipates that substantially all costs incurred associated with contract assets as of December 31, 20XX will be billed and collected within one year.

As of December 31, 20XX, the Company had construction contract assets of $3,248,000. The Company performed an evaluation of expected credit losses based on historical experience with customer defaults, the current and expected economic environment, and the Company's assessment of specific risks associated with each contract. The Company's estimate of expected credit losses was based on a probability-weighted assessment of potential losses over the life of the contracts. The Company believes expected credit losses are not material to the financial statements. The Company's estimate of expected credit losses associated with these assets was $-0-.

The Company's estimate of expected credit losses is subject to inherent uncertainty, and actual losses could differ from these estimates. The Company reviews its estimate of expected credit losses on a regular basis and adjusts as necessary based on changes in economic conditions, customer creditworthiness, and other factors. Any changes in the estimate of expected credit losses are recorded as an adjustment to the contract asset balance and are reflected in the statement of operations. Management anticipates that substantially all costs incurred associated with contract assets as of December 31, 20XX will be billed and collected within one year.

Variable consideration:

The nature of the Company's contracts gives rise to several types of variable consideration, including claims and unpriced change orders; award and incentive fees, liquidated damages, and other penalties. The Company recognizes revenue and costs for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Advertising

The Company expenses advertising costs as incurred, which amounted to $9,000 for the year ended December 31, 20XX, and are included in general and administrative expenses.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The income taxes on the net earnings for the period are payable personally by the stockholders pursuant to an election under Subchapter S of the Internal Revenue Code not to have the Company taxed as a corporation. Accordingly, no income tax provision has been recorded in these financial statements.

Uncertain Tax Positions

Accounting guidance issued by the Financial Accounting Standards Board (FASB) prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The Company did not have unrecognized tax benefits as of December 31, 20XX and does not expect this to change significantly over the next 12 months. The Company will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 20XX, the Company has not accrued interest or penalties related to uncertain tax positions.

Concentrations

Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and trade receivables.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

The Company grants credit to its customers, substantially all of whom are commercial enterprises located in the United States. Management believes that its contract acceptance, billing, and collection policies are adequate to minimize potential credit risk.

Receivables, Revenue, and Backlog

Contract receivables from two customers represented 61% of total contract receivables as of December 31, 20XX. Contract revenue from four customers accounted for approximately 71% of total contract revenue for the year ended December 31, 20XX. Backlog from four of the Company's customers represented 94% of total contract backlog as of December 31, 20XX.

Subsequent Events

The Company has evaluated all subsequent events through DATE, the date the financial statements were available to be issued.

NOTE 2 CONTRACT ASSETS AND LIABILITIES

The Company measures revenue recognition on the transaction price of performance obligations (typically at the contract level) using percent of completion calculations based on costs incurred to date compared to total estimated costs at completion. Due to contract terms impact on timing of billings to our customer, revenue recognition is not consistent with contract billings. The Company considers retention that is withheld on progress billings as not creating an unconditional right to payment until contractual milestones are reached (typically substantial completion). Accordingly, withheld retention is considered a component of contract assets and liabilities until finally billed to the customer or unconditional right to payment has been achieved. Contract assets and liabilities are reported on a net basis on each contract.

Contract Assets and Liabilities are presented as follows as of December 31, 20XX:

Contract Assets:	
Retention Receivable	$ 1,442,000
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	1,992,000
Less: Reclassified Retention Receivable	(186,000)
Net Contract Assets	$ 3,248,000
Contract Liabilities:	
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	$ (1,006,000)
Less: Reclassified Retention Receivables	186,000
Net Contract Liabilities	$ (820,000)
Contract Receivables	$ 5,862,000

The balance of contract assets, contract liabilities, and contract receivables as of January 1, 20XX was $481,000, $279,000, and $1,630,000, respectively.

NOTE 3 COSTS AND ESTIMATED GROSS PROFIT ON CONTRACTS IN PROGRESS

Costs and estimated gross profit on construction contracts in progress contract related billings as follows:

Costs Incurred on Uncompleted Projects	$ 16,072,000
Estimated Gross Profit	3,186,000
Contract Revenues Earned	19,258,000
Less: Billings to Date	18,272,000
Excess of Revenue Earned Over Billings	$ 986,000

NOTE 3 COSTS AND EST. GROSS PROFIT ON CONTRACTS IN PROGRESS (CONTINUED)

The above balances are included in contract assets and contract liabilities as of December 31, 20XX as follows:

Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	$ 1,992,000
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	(1,006,000)
Total	$ 986,000

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 20XX consists of the following:

Vehicles	$ 234,000
Office Equipment	14,000
Construction Equipment	75,000
Total	323,000
Less: Accumulated Depreciation and Amortization	202,000
Total Property and Equipment	$ 121,000

Depreciation amounted to $65,000 for the year ended December 31, 20XX.

NOTE 5 LINE OF CREDIT

The Company has an unsecured line of credit with a financial institution that has a borrowing limit of $750,000. Interest is charged at a variable rate, which is the prime rate plus 1.75%. The maturity date is November 15, 20XX. At December 31, 20XX, there is a balance due of $311,000 on the line of credit. The Company has certain financial and nonfinancial covenants in connection to the line of credit. Management of the Company believes they are in compliance with all covenants as of December 31, 20XX.

NOTE 6 LEASES

The Company leases office facilities and vehicles under long-term lease agreements. The leases expire in 20XX. In the normal course of business, it is expected that these leases will be renewed or replaced by similar leases. The expected amount payable under the residual guarantees is estimated to be $115,000 at December 31, 20XX.

NOTE 6 LEASES (CONTINUED)

The following tables provide quantitative information concerning the Company's lease for the year ended December 31, 20XX:

Lease Costs:		
Operating Lease Costs	$	78,000
Short-Term Lease Cost		-
Total Lease Costs	$	78,000
Other Information:		
Operating Cash Flows from Operating Leases	$	78,000
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	$	159,000
Weighted-Average Remaining Lease Term - Operating Leases		1.3 Years
Weighted-Average Discount Rate - Operating Leases		7.42%

A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 20XX is as follows:

Year Ending December 31,		Operating Leases
20XX	$	101,000
20XX		36,000
Total Lease Payments		137,000
Less: Interest		(6,000)
Present Value of Lease Liabilities	$	131,000

NOTE 7 NOTES PAYABLE

Additionally, the Company carries long-term debt related to the purchase of vehicles and construction equipment. The outstanding balances and future payments on debt as of December 31, 20XX consist of the following:

Description	Interest Rate	Payable Within One Year	After One Year
Notes payable, secured by equipment, monthly principal and interest payments of $15,000 due July 20XX	2%-13%	$ 145,000	$ 416,000
Notes payable, secured by vehicles, monthly principal and interest payments of $4,000, due June 20XX	2%-14%	41,000	84,000
Total		$ 186,000	$ 500,000

Future maturities on long-term debt are as follows:

Year Ending December 31,	Amount
20XX	$ 186,000
20XX	200,000
20XX	207,000
20XX	93,000
Total	$ 686,000

Interest expense related to long-term debt and line of credit amounted to $165,000 for the year ended December 31, 20XX.

NOTE 8 RELATED PARTY TRANSACTIONS

At December 31, 20XX, the company has a note payable due to a stockholder in the amount of $54,000 with no interest rate or payment terms.

NOTE 9 CONTRACT BACKLOG

The following schedule is a reconciliation of contract backlog representing signed contracts as of December 31, 20XX.

Backlog Balance, Beginning of Year	$ 3,886,000
New Contracts and Contract Adjustments	58,387,000
Total	62,273,000
Less: Contract Revenue Earned	23,955,000
Backlog Balance, End of Year	$ 38,318,000

NOTE 10 COMMITMENTS AND CONTINGENCIES

The Company is contingently liable for commitments and performance guarantees arising from contracts. The Company is involved in various negotiations over contract terms and billings during the normal course of business. The Company's management feels these disputes are without substantial merit and should not result in settlements which would have a material adverse effect on the Company's financial statements.

The Company is engaged in legal actions arising in the ordinary course of business. With respect to these legal actions, the Company believes it has adequate legal defenses, insurance coverage, or indemnification protection and believes that the ultimate outcomes will not have a material impact on the Company's financial position.

NOTE 11 SURETY BONDS

The Company, as a condition for entering into some of its construction contracts, had outstanding surety bonds as of December 31, 20XX. The surety bonds are collateralized by the contracts receivable and are personally guaranteed by the stockholders of the Company.

EXAMPLE CONSTRUCTION COMPANY, INC.
EARNINGS FROM CONSTRUCTION CONTRACTS
YEAR ENDED DECEMBER 31, 20XX

	Contract Revenues Earned	Contract Costs	Gross Profit
Amounts Recognized on Contracts Completed During the Year	$ 5,197,000	$ 3,567,000	$ 1,630,000
Amounts Recognized on Contracts in Progress at Year-End	18,758,000	15,629,000	3,129,000
Total	$ 23,955,000	$ 19,196,000	$ 4,759,000

EXAMPLE CONSTRUCTION COMPANY, INC.
CONSTRUCTION CONTRACTS COMPLETED
YEAR ENDED DECEMBER 31, 20XX

	Total			Before January 1, 20XX			For the Year Ended December 31, 20XX		
Contract Description	Earned Contract Revenue	Contract Costs	Gross Profit	Earned Contract Revenue	Contract Costs	Gross Profit	Earned Contract Revenue	Contract Costs	Gross Profit (Loss)
Winding Creek	$ 2,800,000	$ 2,561,000	$ 239,000	$ 2,800,000	$ 2,542,000	$ 258,000	$ -	$ 19,000	$ (19,000)
Sunrise Club	1,958,000	1,551,000	407,000	1,721,000	1,518,000	203,000	237,000	33,000	204,000
Fairway Village	1,474,000	1,316,000	158,000	622,000	542,000	80,000	852,000	774,000	78,000
Patterson Pavilion	965,000	848,000	117,000	94,000	82,000	12,000	871,000	766,000	105,000
Snowshoe Center	959,000	595,000	364,000	654,000	467,000	187,000	305,000	128,000	177,000
Park City Center	856,000	773,000	83,000	-	-	-	856,000	773,000	83,000
Miscellaneous Contracts Completed Under $500,000	2,525,000	1,318,000	1,207,000	449,000	244,000	205,000	2,076,000	1,074,000	1,002,000
Total	$ 11,537,000	$ 8,962,000	$ 2,575,000	$ 6,340,000	$ 5,395,000	$ 945,000	$ 5,197,000	$ 3,567,000	$ 1,630,000

EXAMPLE CONSTRUCTION COMPANY, INC.
CONSTRUCTION CONTRACTS IN PROGRESS
YEAR ENDED DECEMBER 31, 20XX

	Total Contract			From Inception to December 31, 20XX				At December 31, 20XX			For the Year Ended December 31, 20XX		
Contract Description	Estimated Revenue	Estimated Costs	Estimated Gross Profit (Loss)	Earned Contract Revenue	Contract Costs	Gross Profit (Loss)	Contract Billings	Estimated Costs to Complete	Percent Complete	Under (Over) Billings	Earned Contract Revenue	Contract Costs	Gross Profit (Loss)
Peak Services	$ 15,532,000	$ 12,426,000	$ 3,106,000	$ 2,814,000	$ 2,251,000	$ 563,000	$ 2,002,000	$ 10,175,000	18%	$ 812,000	$ 2,814,000	$ 2,251,000	$ 563,000
West Station	13,949,000	11,159,000	2,790,000	194,000	155,000	39,000	103,000	11,004,000	1%	91,000	194,000	155,000	39,000
Mammoth Creek	5,986,000	5,070,000	916,000	5,986,000	5,070,000	916,000	5,744,000	-	100%	242,000	5,986,000	5,070,000	916,000
Horse Lake	4,824,000	3,618,000	1,206,000	271,000	203,000	68,000	241,000	3,415,000	6%	30,000	271,000	203,000	68,000
Riverdale Park	4,444,000	3,714,000	730,000	4,444,000	3,714,000	730,000	3,929,000	-	100%	515,000	4,444,000	3,714,000	730,000
Outpost	2,433,000	1,825,000	608,000	73,000	55,000	18,000	215,000	1,770,000	3%	(142,000)	73,000	55,000	18,000
Oasis	1,568,000	1,176,000	392,000	232,000	174,000	58,000	512,000	1,002,000	15%	(280,000)	232,000	174,000	58,000
Commerce Park	1,305,000	1,044,000	261,000	-	-	-	181,000	1,044,000	0%	(181,000)	-	-	-
Lake Point	1,280,000	981,000	299,000	1,280,000	981,000	299,000	982,000	-	100%	298,000	1,280,000	981,000	299,000
Roger County	1,120,000	1,121,000	(1,000)	1,112,000	1,113,000	(1,000)	1,108,000	8,000	99%	4,000	1,055,000	1,064,000	(9,000)
Navel Springs	975,000	731,000	244,000	271,000	203,000	68,000	318,000	528,000	28%	(47,000)	271,000	203,000	68,000
Rattlesnake Solar	918,000	734,000	184,000	3,000	2,000	1,000	138,000	732,000	0%	(135,000)	3,000	2,000	1,000
Carlsbad	710,000	605,000	105,000	705,000	601,000	104,000	710,000	4,000	99%	(5,000)	490,000	413,000	77,000
Cal Solar	698,000	523,000	175,000	336,000	252,000	84,000	405,000	271,000	48%	(69,000)	336,000	252,000	84,000
Valley View	550,000	497,000	53,000	473,000	427,000	46,000	516,000	70,000	86%	(43,000)	274,000	248,000	26,000
Miscellaneous Contracts in Progress Under $500,000	1,284,000	1,051,000	233,000	1,064,000	871,000	193,000	1,168,000	180,000		(104,000)	1,035,000	844,000	191,000
Total	$ 57,576,000	$ 46,275,000	$ 11,301,000	$ 19,258,000	$ 16,072,000	$ 3,186,000	$ 18,272,000	$ 30,203,000		$ 986,000	$ 18,758,000	$ 15,629,000	$ 3,129,000

Costs and Estimated Gross Profit in Excess of Billings on Contracts in Progress	$ 1,992,000
Billings in Excess of Costs and Estimated Gross Profit on Contracts in Progress	(1,006,000)
Total	$ 986,000

EXAMPLE CONSTRUCTION COMPANY, INC.
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
YEAR ENDED DECEMBER 31, 20XX

FACILITY	
Office Supplies	$ 80,000
Rent	100,000
Total Facility	180,000
SALARIES AND BENEFITS	
Labor and Labor Burden	742,000
Employee Benefits	363,000
Total Salaries and Benefits	1,105,000
OTHER ADMINISTRATIVE	
Computers and Technology	150,000
Depreciation	65,000
Vehicle Expenses	75,000
Professional Fees	311,000
Insurance	35,000
Advertising	9,000
Licenses and Permits	125,000
Training and Development	50,000
Miscellaneous	65,000
Total Other Administrative	885,000
Total General and Administrative Expenses	$ 2,170,000

Appendix B

Glossary of Construction Industry Terms

GLOSSARY OF CONSTRUCTION INDUSTRY TERMS

This glossary includes terms that have specialized meanings when used in the construction industry.

back charges Billings for work performed or costs incurred by one party that, in accordance with the agreement, should have been performed or incurred by the party to whom billed. Owners bill back charges to general contractors, and general contractors bill back charges to subcontractors. Examples of back charges include charges for cleanup work and charges for subcontractor's use of a general contractor's equipment.

backlog The amount of revenue that a contractor expects to be realized from work to be performed on uncompleted contracts, including new contractual agreements on which work has not begun.

bid A formal offer by a contractor, in accordance with specifications for a project, to do all or a phase of the work at a certain price in accordance with the terms and conditions stated in the offer.

bid bond A bond issued by a surety on behalf of a contractor that provides assurance to the recipient of the contractor's bid that, if the bid is accepted, the contractor will execute a contract and provide a performance bond. Under the bond, the surety is obligated to pay the recipient of the bid the difference between the contractor's bid and the bid of the next lowest responsible bidder if the bid is accepted and the contractor fails to execute a contract or to provide a performance bond.

bid security Funds or a bid bond submitted with a bid as a guarantee to the recipient of the bid that the contractor, if awarded the contract, will execute the contract in accordance with the bidding requirements and the contract documents.

bid shopping A practice by which contractors, both before and after their bids are submitted, attempt to obtain prices from potential subcontractors and material suppliers that are lower than the contractors' original estimates on which their bids are based, or after a contract is awarded, seek to induce subcontractors to reduce the subcontract price included in the bid.

bidding requirements The procedures and conditions for the submission of bids. The requirements are included in documents, such as the notice to bidders, advertisements for bids, instructions to bidders, invitations to bid, and sample bid forms.

bonding capacity The total dollar value of construction bonds that a surety will underwrite for a contractor, based on the surety's pre-determination for the overall volume of work that the contractor can handle.

bonding company A company authorized to issue bid bonds, performance bonds, labor and materials bonds, or other types of surety bonds.

bonus clause A provision in a construction contract that provides for payments to the contractor in excess of the basic contract price as a reward for meeting or exceeding various contract stipulations, such as the contract completion date or the capacity, quality, or cost of the project.

broker A party that obtains and accepts responsibility as a general contractor for the overall performance of a contract but enters into subcontracts with others for the performance of virtually all construction work required under the contract.

builder's risk insurance Insurance coverage on a construction project during construction, including extended coverage that may be added for the contractor's protection or required by the contract for the customer's protection.

building codes The regulations of governmental bodies specifying the construction standards that buildings in a jurisdiction must meet.

building permit An official document issued by a governing body for the construction of a specified project in accordance with drawings and specifications approved by the governing body.

change order Modifications of an original contract that effectively change the provisions of the contract without adding new provisions. They include changes in specifications of design, method or manner of performance, facilities, equipment, materials, site, and period for completion of work.

claims Amounts in excess of the agreed contract price that a contractor seeks to collect from customers or others for customer-caused delays, errors in specifications and designs, unapproved change orders, or other causes or unanticipated costs.

completed and accepted A procedure relating to the time for closing jobs for tax purposes under the completed contract method of accounting that allows closing a job when construction is physically completed and the customer has formally accepted the project as defined in the contract.

completion bond A document providing assurance to the customer and the financial institution that the contractor will complete the work under the contract and that funds will be provided for the completion.

construction loan Interim financing for the development and construction of real property.

construction management contractor A party who enters into an agency contract with the owner of a construction project to supervise and coordinate the construction activity on the project, including negotiating contracts with others for all the construction work.

contract bond An approval form of security executed by a contractor and a surety for the execution of the contract and all supplemental agreements, including the payment of all debts relating to the construction of the project.

contract cost breakdown An itemized schedule prepared by a contractor after the receipt of a contract showing in detail the elements and phases of the project and the cost of each element and phase.

contract item (pay item) An element of work, specifically described in a contract, for which the contract provides either a unit or lump-sum price.

contract overrun (underrun) The amount by which the original contract price, as adjusted by change orders, differs from the total cost of a project at completion.

contract payment bond The security furnished by the contractor to guarantee payment for labor and materials obtained in the performance of the contract.

contract performance bond The security furnished by the contractor to guarantee the completion of the work on a project in accordance with the terms of the contract.

Critical Path Method (C.P.M.) A network scheduling method that shows the sequences and interdependencies of activities. The critical path is the sequence of activities that shows the shortest time path for completion of the project.

draw The amount of progress billings on a contract that is currently available to a contractor under a contract with a fixed payment schedule.

escalation clause A contract provision that provides for adjustments of the price of specific items as conditions change (for example, a provision that requires wage rates to be determined on the basis of wage levels established in agreements with labor unions).

estimate (bid function) The amount of labor, materials, and other costs that a contractor anticipates for a project as summarized in the contractor's bid proposal for the project.

estimated cost to complete The anticipated additional cost of materials, labor, and other items required to complete a project at a scheduled time.

extras (customer's extras) Additional work requested of a contractor, not included in the original plan, which will be billed separately and will not alter the original contract amount.

final acceptance The customer's acceptance of the project from the contractor on certification by an architect or engineer that the project is completed in accordance with contract requirements. The customer confirms final acceptance by making final payment under the contract unless the time for making the final payment is otherwise stipulated.

final inspection The final review of the project by an architect or engineer before issuance of the final certificate for payment.

front-end loading A procedure under which progress billings are accelerated in relation to costs incurred by assigning higher values to contract portions that will be completed in the early stages of a contract than to those portions that will be completed in the later stages, so cash receipts from the project during the early stages will be higher than they otherwise would be.

general contractor A contractor who enters into a contract with the owner of a project for the construction of the project and who takes full responsibility for its completion, although the contractor may enter into subcontracts with others for the performance of specific parts or phases of the project.

incentives (See bonus clause and penalty clause.)

joint venture An entity owned, operated, and jointly controlled by a small group of participants as a separate and specific business or project for the mutual benefit of the participants, including arrangements for pooling equipment, bonding, financing, and sharing skills (such as engineering, design, and construction).

letter agreement (letter of agreement) A letter stating the terms of an agreement between addressor and addressee, usually prepared for signature by the addressee as indication of acceptance of those terms as legally binding.

letter of intent A letter signifying an intention to enter into a formal agreement and usually setting forth the general terms of such an agreement.

lien An encumbrance that usually makes real or personal property the security for payment of a debt or discharge of an obligation.

liquidated charges Construction contract clauses obligating the contractor to pay specified daily amounts to the project owner as compensation for damages suffered by the owner because of the contractor's failure to complete the work within a stated time.

loss contract A contract on which the estimated cost to complete exceeds the contract price.

maintenance bond A document, given by the contractor to the owner, guaranteeing to rectify defects in workmanship or materials for a specified time following completion of the project. A one-year bond is normally included in the performance bond.

mechanics lien A lien on real property, created by statute in many areas, in favor of persons supplying labor or materials for a building or structure, for the value of labor or materials supplied by them. In some jurisdictions, a mechanics lien also exists for the value of professional services.

negotiated contract A contract for construction developed through negotiation of plans, specifications, terms, and conditions without competitive bidding.

payment (labor and materials) bond A bond executed by a contractor to protect suppliers of labor, materials, and supplies to a construction project.

penalty clause A provision in a construction contract that provides for a reduction in the amount otherwise payable under a contract to a contractor as a penalty for failure to meet targets or schedules specified in the contract or for failure of the project to meet contract specifications.

performance bond A bond issued by a surety and executed by a contractor to provide protection against the contractor's failure to perform a contract in accordance with its terms.

prequalification The written approval of an agency seeking bids on a project that authorizes a contractor to submit a bid on the project in circumstances in which bidders are required to meet certain standards.

prime contract A contract between an owner of a project and a contractor for the completion of all or a portion of a project under which the contractor takes full responsibility for the completion of the work.

prime contractor A contractor who enters into a contract with the owner of the project for the completion of all or a portion of the project who takes full responsibility for its completion (see general contractor).

progress (advance billings) Amounts billed, in accordance with the provisions of a contract, on the basis of progress to-date under the contract.

punch list A list made near completion of work indicating items to be furnished or work to be performed by the contractor or subcontractor in order to complete the work as specified in the contract.

quantity takeoffs An itemized list of the quantities of materials and labor required for a project, with each item priced and extended, which is used in preparing a bid on the project.

retentions Amounts withheld from progress billings until final and satisfactory project completion.

specifications (specs) A written description of the materials and workmanship required on a project (as shown by related working drawings), including standard and special provisions related to the quantities and qualities of materials to be furnished under the contract.

stop order A formal notification to a contractor to discontinue some or all work on a project for reasons such as safety violations, defective materials or workmanship, or cancellation of the contract.

subcontract A contract between the prime contractor and another contractor or supplier to perform specified work or to supply specified materials in accordance with plans and specifications for the project.

subcontractor bond A type of surety bond that guarantees a subcontractor will fulfill their contractual obligations on a construction project, often required by general contractors or project owners to protect against financial loss.

substantial completion The point at which the major work on a contract is completed and only insignificant costs and potential risks remain. Revenue from a contract is recognized under the completed contract method when the contract is substantially completed.

surety (See bonding company.)

turnkey project A project for which a contractor undertakes, under contract, to deliver a fully operational and tested facility before being entitled to payment.

unbalanced bid A bid proposal under which the contract price is allocated to phases or items in the contract on a basis other than that of cost plus overhead and profit for each bid item or phase. A common practice is to front-end load a bid proposal to obtain working capital to finance the project. Another form of unbalanced bid on unit-price contracts assigns higher profits to types of work for which the quantities are most likely to be increased during the performance of the contract.

waiver of lien An instrument by which the holder of a mechanics or materials lien against property formally relinquishes that right.

warranty (maintenance) period A specified period, which is normally specified in the contract, after the completion and acceptance of a project, during which a contractor is required to provide maintenance construction, and for which the contractor is required to post a maintenance bond.