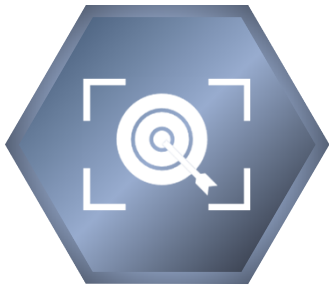


2025 Philadelphia Surety Claims Association



Nick Femia, CPA, CCIFP
Demystifying Construction Accounting

February 19, 2025 @ 12pm



Financial Statements

Financial statements help businesses communicate with investors, creditors, employees, regulators, and the public. They also help businesses meet legal and regulatory requirements. Report containing the financial information of the organization. The required statements are:

- balance sheet,
- income statement,
- statement of changes in a financial position (Cash Flow Statement)
- statement of changes in equity.
 - Shows changes in a company's ownership interests over a period of time
 - Includes information on share issuances, dividends, and net earnings
 - Used to provide investors with context on why equity increases or decreases

What is a Balance Sheet?

- A summary of a company's assets, liabilities, and equity **at a specific time**
- Also known as a statement of financial position or condition
- Used to show a company's profitability and performance



Statement showing the company's financial position at the end of an accounting period. It presents the company assets, liabilities, and equity.



There are two accounts specific to the construction industry on the balance sheet.



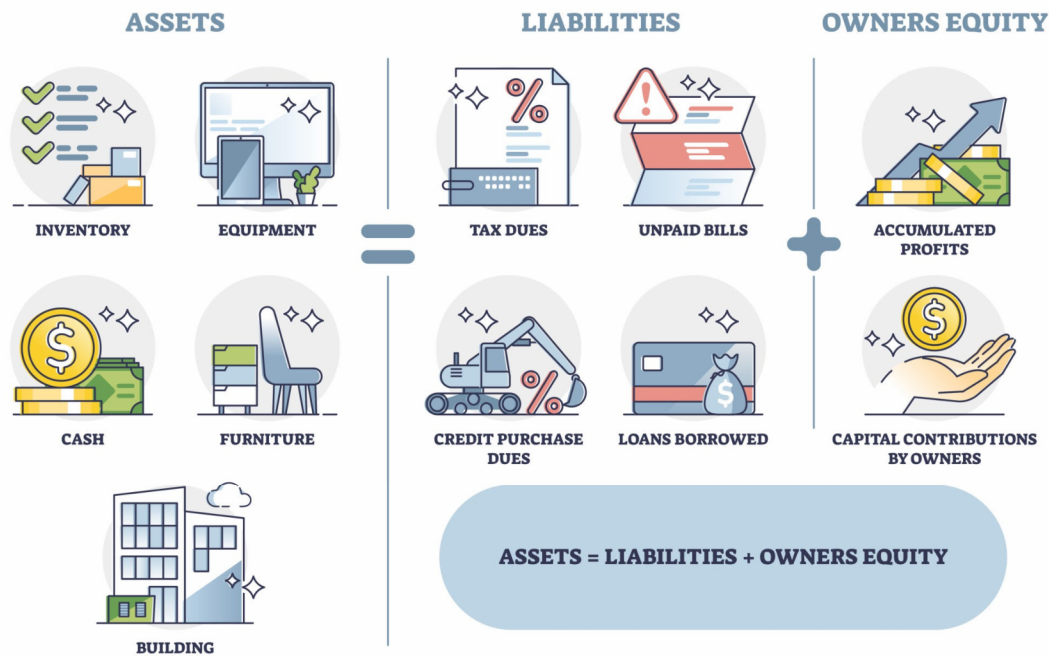
Billings in Excess of Costs
Amounts billed on contracts where billings exceed costs and estimated earnings. These amounts are accumulated and presented as a liability on the balance sheet.



Costs in Excess of Billings
Amounts recognized on contracts where costs and estimated earnings exceed contract billings. These amounts are accumulated and presented as an asset (debit balance) on the balance sheet.

What is a Balance Sheet?

ACCOUNTING EQUATION



What is a Balance Sheet?

Assets

Current Assets:

- Cash & Cash Equivalents: \$250,000
- Accounts Receivable: \$500,000
- Inventory (Construction Materials): \$300,000
- Prepaid Expenses: \$50,000
- Under Billings: \$75,000
- Total Current Assets: \$1,175,000

Fixed Assets:

- Property, Plant & Equipment: \$2,000,000
 - Less: Accumulated Depreciation: (\$500,000)
- Net Fixed Assets: \$1,500,000

Other Assets:

- Investments: \$200,000
- Goodwill & Intangible Assets: \$100,000
- Total Other Assets: \$300,000

Total Assets: \$2,975,000

Liabilities & Equity

Current Liabilities:

- Accounts Payable: \$350,000
- Short-term Loans: \$150,000
- Accrued Expenses: \$100,000
- Taxes Payable: \$50,000
- Over Billings: \$125,000
- Total Current Liabilities: \$775,000

Long-term Liabilities:

- Long-term Loans: \$800,000
- Deferred Tax Liabilities: \$150,000
- Total Long-term Liabilities: \$950,000

Equity:

- Common Stock: \$500,000
- Retained Earnings: \$800,000
- Total Equity: \$1,300,000

Total Liabilities & Equity: \$2,975,000

What is an Income Statement / Profit & Loss Statement?

- Shows a company's revenue, expenses, and net income over a period of time
- Also known as a profit-loss statement or earnings statement
- Used to assess a company's profitability and operational efficiency



What is an Income Statement / Profit & Loss Statement?

XYZ Construction Inc.

Income Statement

For the Year Ended December 31, 2024

Revenue	Amount (\$)
Contract Revenue	2,000,000
Change Orders & Additional Work	150,000
Less: Allowances & Discounts	(20,000)
Net Revenue	2,130,000
Cost of Construction	
Direct Labor	500,000
Materials & Supplies	600,000
Subcontractor Costs	400,000
Equipment Rental	100,000
Depreciation of Equipment	50,000
Site Utilities & Permits	30,000
Total Cost of Construction	1,680,000
Gross Profit	450,000

What is a Cash Flow Statement?

Financial statement presenting the sources from which cash has been derived into the business and on what cash has been spent or used over an accounting period. The net result of the sources and uses are reflected in the balance sheet of the cash account.

- Shows how cash entered and exited a company during a period of time
- Tracks cash inflows from operations and investments



Operating Activities

- Net Income
- Non-cash charges
- Gain & losses
- Changes in working capital



Investing Activities

- Capital expenditures
- Acquisitions
- Proceeds from sale of assets



Financing Activities

- Borrow & repay debt
- Issue & repurchase shares
- Pay dividends

What is a Cash Flow Statement?

XYZ Construction Inc.

Cash Flow Statement

For the Year Ended December 31, 2024

Cash Flows from Operating Activities

Description	Amount (\$)
Net Income	176,800
Adjustments for Non-Cash Items:	
- Depreciation Expense	50,000
- Bad Debt Expense	10,000
Changes in Working Capital:	
- (Increase)/Decrease in Accounts Receivable	(40,000)
- (Increase)/Decrease in Inventory	(20,000)
- Increase/(Decrease) in Accounts Payable	30,000
- Increase/(Decrease) in Accrued Expenses	10,000
Net Cash Provided by Operating Activities	216,800

What is a Cash Flow Statement?

Cash Flows from Investing Activities

Description	Amount (\$)
Purchase of Equipment	(100,000)
Sale of Equipment	20,000
Net Cash Used in Investing Activities	(80,000)

Cash Flows from Financing Activities

Description	Amount (\$)
Proceeds from Loan Borrowing	150,000
Repayment of Loan	(50,000)
Owner's Drawings/Dividends	(30,000)
Net Cash Provided by Financing Activities	70,000

Net Increase in Cash and Cash Equivalents

| Total Net Cash Flow | 206,800 |

| Cash Balance at Beginning of Year | 50,000 | | Cash Balance at End of Year | 256,800 |

Notes to Financial Statements

A schedule typically included with a contractors financial statement that lists jobs in progress, how much has been spent, how much is forecasted to be spent to complete the job, how much you have made so far, how much you expect to make, and what portion of the revenue you get to recognize.

Notes to Financial Statements

Note 4: Accounts Receivable & Retainage

Category	Amount (\$)
Accounts Receivable	1,200,000
Less: Allowance for Doubtful Accounts	(50,000)
Net Accounts Receivable	1,150,000
Retainage Receivable	300,000

Note 5: Construction Contracts & Work-in-Progress (WIP)

Category	Amount (\$)
Costs Incurred to Date	3,500,000
Estimated Gross Profit	700,000
Total Revenue Recognized	4,200,000
Less: Billings to Date	(4,500,000)
Over/(Under) Billed	(300,000)

Notes to Financial Statements



Note 6: Property, Plant & Equipment (PP&E)

Category	Cost (\$)	Accumulated Depreciation (\$)	Net Book Value (\$)
Buildings	800,000	(150,000)	650,000
Equipment	1,200,000	(400,000)	800,000
Vehicles	500,000	(200,000)	300,000
Office Equipment	150,000	(90,000)	60,000
Total	2,650,000	(840,000)	1,810,000

Note 7: Loans & Project Financing

XYZ Construction Inc. finances its operations through a mix of bank loans, lines of credit, and project-specific financing.

Loan Type	Outstanding Balance (\$)	Interest Rate (%)	Maturity Date
Construction Equipment Loan	1,200,000	6.0%	2028
Working Capital Line of Credit	800,000	5.5%	Revolving
Long-Term Mortgage Loan	2,500,000	4.8%	2030

Debt is secured by company assets, including real estate and construction equipment.

Notes to Financial Statements

Note 10: Subsequent Events

There have been no significant events after the reporting date that would materially impact the financial statements.

Levels of “assurance” in Financial Statements

1. **Compilations.** These engagements provide no assurance that financial statements are free from material misstatement and conform with Generally Accepted Accounting Principles (GAAP). Instead, the CPA puts financial information that management generates in-house into a GAAP financial statement format. Footnote disclosures and cash flow information are optional and often omitted. The least expensive option.

2. **Reviews.** Reviewed financial statements provide limited assurance that the statements are free from material misstatement and conform with GAAP. Here, the accountant applies analytical procedures to identify unusual items or trends in the financial statements. She or he inquires about these anomalies, as well as the company’s accounting policies and procedures.

Reviewed statements always include footnote disclosures and a statement of cash flows. But the accountant isn’t required to evaluate internal controls, verify information with third parties or physically inspect assets.

3. **Audits.** The most rigorous level of assurance is provided by an audit. It offers a reasonable level of assurance that your financial statements are free from material misstatement and conform with GAAP.

Unlike a compilation, it involves some analytical research and testing of information presented. During a review, an auditor will make inquiries to see whether the information they're being presented with is correct or not.

An audit provides the most comprehensive level of assurance, while a review offers an intermediary level of assurance. There are four (4) different types of auditor opinions:



When can claims professionals use financial reports and statements?

- 1. Assessing financial conditions of indemnitor(s)**
- 2. Assessing the financial conditions of principal(s)**
- 3. Assessing financial conditions of bonded project(s)**

1. Assessing financial conditions of indemnitor(s)

- A. Financial Statement Analysis
- B. Asset & Collateral Evaluation
- C. Creditworthiness & Payment History
- D. Cash Flow & Liquidity Reserves



A. Financial Statement Analysis

Obtain and review the **indemnitor's financial statements**, including:

- **Balance Sheet** – Examines assets, liabilities, and equity to assess financial strength.
- **Income Statement** – Evaluates profitability and revenue stability.
- **Cash Flow Statement** – Determines the ability to meet obligations with available cash.

A. Financial Statement Analysis

Key Ratios to Analyze:

Category	Key Ratios	Interpretation
Liquidity	Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Measures short-term financial health. A ratio above 1.5 is preferable.
	Quick Ratio = $\frac{\text{Cash} + \text{Receivables}}{\text{Current Liabilities}}$	Determines ability to pay short-term obligations without selling inventory.
Solvency	Debt-to-Equity Ratio = $\frac{\text{Total Debt}}{\text{Shareholder Equity}}$	Higher values indicate more debt reliance. A ratio above 2.0 could signal risk.
	Interest Coverage Ratio = $\frac{\text{EBIT}}{\text{Interest Expense}}$	Evaluates ability to cover interest payments. A ratio below 1.5 is concerning.
Profitability	Net Profit Margin = $\frac{\text{Net Income}}{\text{Revenue}}$	Indicates operational efficiency and financial sustainability.
	Return on Assets (ROA) = $\frac{\text{Net Income}}{\text{Total Assets}}$	Shows profitability relative to assets.
Cash Flow	Operating Cash Flow / Total Liabilities	Evaluates if cash flow can cover debts.

Personal Financial Statements – What Are They?

A Personal Financial Statement (PFS) is a document that summarizes a person's or persons' assets and liabilities at a given time. PFS generally include the following:



A balance Sheet that lists all of the assets and liabilities and calculates a net worth.



An Income Statement tracks your all the sources of income



A Cash Flow Statement tracks all moneys earned and spent.

PFS can be prepared using a standard form (see Exhibit A), prepared in Excel or prepared by a CPA or tax preparer and include your current and prior years tax returns for both federal and state(s).

Uses of Personal Financial Statements

PFS are prepared as individual or joint statements:



- to create a financial plan,
- to understand current financial position,
- to reach financial goals,
- to apply for a business or personal loan
- as documentation to support a personal guarantee

PFS Users are generally a Lender and/or a Surety who need to:



- understand a potential borrower's debt to income ratio
- evaluate loan terms including loan amount and interest rates
- evaluate recovery opportunities as described in the personal guarantee

Tax Returns

Examples of the federal (Internal Revenue Service) returns are as follows:



- IRS Form 1040 – US Individual Income Tax Return including supporting schedules
- IRS Form 1065 – US Return of Partnership Income including supporting schedules



- IRS Form 1120 – US Corporation Income Tax Return including supporting schedules
- IRS Form 1120-S – US Income Tax Return for an S-Corp including supporting schedules

Note: Each state may have a corresponding set of forms to match the IRS forms

Income Statement & Cash Flow – See Exhibit A



Income

- Earned Income (net paycheck)
 - W-2 or 1099 earnings, bonuses and commissions
- Investment Income
 - Brokerage, Government securities
- Interest & Dividend Income
 - Banks, Brokerage, Personal, Business Distributions
- Rental / Real Estate Income

Total Income Statement



Expenses

- Utilities, Internet, Cable, Cell Phone, Food, Clothing, Household, Home, Vehicle, Life Insurance, Real Estate, Personal Property Taxes, Loan Payments
 - Mortgage, Vehicle Loans, Student Loans

Net Cash Flow = Income Less Expenses

Balance Sheet – See Exhibit A



Assets

- Cash & marketable securities
 - Bank accounts: checking, savings, certificates of deposit
 - Brokerage accounts: stock, mutual fund, bond investments
 - US Treasury Investments: savings bonds, treasury deposits, etc.
- Retirement accounts: 401(k), 403(b), Roth IRA, traditional IRA, Simple IRA, SEP IRA, etc
- All properties current market value: primary residence, 2nd homes, rental and business properties
- Personal investments in business assets: C-Corps, S-Corps, LLC, partnerships, sole-proprietorship, etc
- Other assets: market value of all vehicles, furniture, art, deferred compensation, loans receivable, cash value of life insurance, etc



Liabilities

- Current market value of any secured bank loans:
 - Mortgages, vehicle loans, personal lines of credit, home equity lines of credit, student loans, secured/unsecured bank loans
- Unsecured liabilities including credit cards
- Personal loans payable

Net Worth

- Calculations of the total assets less total liabilities

Exhibit A – Balance Sheet, Income Statement and Cash Flow

PERSONAL FINANCIAL STATEMENT AS OF THE _____ DAY OF _____, _____.

The assets, liabilities, income and expenses described on this (or the attached) financial statement are (check the appropriate box):

- ☐ **Individual** If this is an individual financial statement, list all your income, expenses and assets including your partial ownership interest in and income from any partially owned assets and list all of your direct and contingent liabilities.
- ☐ **Joint** If this is a joint financial statement, list your joint income, expenses and assets, including your partial ownership in and income from any partially owned assets and list all of your joint and contingent liabilities. A separate Personal Financial Statement may be provided for each individual if you prefer.

Individual Name (First, Middle, Last-please print)		Date of Birth	Employer	Years
Home Address Phone ()		SSN	Occupation	Years
City/State/Zip		# of Dependents	Homeuse Address	Phone ()
Joint Name (Complete only if 2 nd box checked)		Date of Birth	Employer	Years
Home Address Phone ()		SSN	Occupation	Years
City/State/Zip			Homeuse Address	Phone ()

(Please answer all questions, using "No" or "None" where necessary.)

[illegible]

List below the details on any obligation(s) for which you are a guarantor, co-maker, or endorser for any debt of an individual, corporation, or partnership:

CONTINGENT LIABILITIES.

CONTINGENT LIABILITIES				
BORROWER	LENDER	AMOUNT GUARANTEED	MATURITY DATE	COLLATERAL

Individual Source of Income Salary (W-2 or 1099)		Joint Source of Income Salary (W-2 or 1099)	
Business and Commissions	\$	Business and Commissions	\$
Dividends and Interest		Dividends and Interest	
Rental Income		Rental Income	
Other Income	\$	Other Income	\$

I/We certify as to best knowledge and belief, the information furnished and all representations made herein constitute the true and correct statement of my/our financial condition, that I/we have no assets or liabilities other than as shown in this statement, that all my/our assets are free of lien or encumbrance except as shown herein and that there are no judgments outstanding or suits pending against me/us. By signing below, I authorize the party to make any request deemed necessary in my/our debtors or through any agency employed by me/us for that purpose in connection with this financial statement.

_____ Signature of Individual	_____ Date	_____ Signature of Joint	_____ Date
----------------------------------	---------------	-----------------------------	---------------

SCHEDULE A - ALL SECURITIES (including non-exempt market national funds (Fixedly Marketable and Non-fixedly Marketable Securities))

[illegible]

Find enough good, solid, repeatable evidence to drive real change.

SCHEDULE B – PREFERENCE[illegible]

SCHEDULE C – PERSONAL RESIDENCE & REAL ESTATE INVESTMENT MORTGAGE DEBT

[illegible]

KEYWORDS: PARTNERSHIPS; general partnerships; limited partnerships; and publicly and privately interests in real estate and medical.

Keywords: *workplace spirituality, spirituality, spirituality in the workplace, spirituality in the workplace, spirituality in the workplace*

[illegible]

463775 For trademarks which represent a material portion of your total assets, please include the relevant financial statements, or in the case of privately held companies, Schedule E to:

INDETERMINATE ACCOUNTS AND NOTES RECEIVABLE

EXPENSE	AMOUNT	INTERSTATE TAX (NET OF STATE TAX)	RENTAL TAX	SALES	COLLATERAL	PLACEMENT
TOTAL						

SCHEDULE F - NOTES PAYABLE[illegible]

Exhibit B – IRS Form 1040

Form 1040 Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2024** CMS No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2024, or other tax year beginning _____, 2024, ending _____, 20

See separate instructions.

Your first name and middle initial _____ Last name _____ Your social security number _____
 If joint return, spouse's first name and middle initial _____ Last name _____ Spouse's social security number _____

Home address (number and street). If you have a P.O. box, see instructions. _____ Apt. no. _____
 City, town, or post office. If you have a foreign address, also complete spaces below. _____ State _____ ZIP code _____
 Foreign country name _____ Foreign postmark/county _____ Foreign postal code _____

Filing Status ☐ Single ☐ Head of household (HOH) ☐ Married filing jointly (even if only one has income) ☐ Married filing separately (MFS) ☐ Qualifying surviving spouse (QSS)
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent.
☐ If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required).

Digital Assets At any time during 2024, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset for a financial interest in a digital asset? (See instructions.) ☐ Yes ☐ No

Standard Deduction Someone can claim: ☐ You as a dependent ☐ Your spouse as a dependent ☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: ☐ Were born before January 2, 1960 ☐ Are blind ☐ Spouse: ☐ Was born before January 2, 1960 ☐ Is blind

Dependents (see instructions):
 (1) First name _____ Last name _____ (2) Social security number _____ (3) Relationship to you _____ (4) Check the box if qualifies for (see instructions):
 Child tax credit ☐ Credit for other dependents ☐

Income
 1a Total amount from Form(s) W-2, box 1 (see instructions) _____ 1a
 b Household employee wages not reported on Form(s) W-2 _____ 1b
 c Tip income not reported on line 1a (see instructions) _____ 1c
 d Medicaid waiver payments not reported on Form(s) W-2 (see instructions) _____ 1d
 e Taxable dependent care benefits from Form 2441, line 2b _____ 1e
 f Employer-provided adoption benefits from Form 8839, line 2b _____ 1f
 g Wages from Form 9919, line 6 _____ 1g
 h Other earned income (see instructions) _____ 1h
 i Non-taxable combat pay election (see instructions) _____ 1i
 z Add lines 1a through 1h _____ 1z

Attach Sch. B if required.
 2a Tax-exempt interest _____ 2a
 3a Qualified dividends _____ 3a
 4a IRA distributions _____ 4a
 5a Pensions and annuities _____ 5a
 6a Social security benefits _____ 6a
 c If you elect to use the lump-sum election method, check here (see instructions) ☐
 7 Capital gain or (loss). Attach Schedule D if required. If not required, check here _____ 7
 8 Additional income from Schedule 1, line 10 _____ 8
 9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income** _____ 9
 10 Adjustments to income from Schedule 1, line 26 _____ 10
 11 Subtract line 10 from line 9. This is your **adjusted gross income** _____ 11
 12 Standard deduction or itemized deductions (from Schedule A) _____ 12
 13 Qualified business income deduction from Form 8966 or Form 8966-A _____ 13
 14 Add lines 12 and 13 _____ 14
 15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income** _____ 15

For disclosures, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 113001 Form 1040 (2024)

Form 1040 (2024) **Page 2**

Tax and Credits
 16 Tax (see instructions). Check if any from Form(s): 1 ☐ 8814 2 ☐ 4672 3 ☐ _____ 16
 17 Amount from Schedule 2, line 3 _____ 17
 18 Add lines 16 and 17 _____ 18
 19 Child tax credit or credit for other dependents from Schedule 8812 _____ 19
 20 Amount from Schedule 3, line 8 _____ 20
 21 Add lines 19 and 20 _____ 21
 22 Subtract line 21 from line 18. If zero or less, enter -0- _____ 22
 23 Other taxes, including self-employment tax, from Schedule 2, line 21 _____ 23
 24 Add lines 22 and 23. This is your **total tax** _____ 24

Payments
 25 Federal income tax withheld from:
 a Form(s) W-2 _____ 25a
 b Form(s) 1099 _____ 25b
 c Other forms (see instructions) _____ 25c
 d Add lines 25a through 25c _____ 25d
 26 2024 estimated tax payments and amount applied from 2023 return _____ 26
 27 Earned income credit (EIC) _____ 27
 28 Additional child tax credit from Schedule 8812 _____ 28
 29 American opportunity credit from Form 8863, line 8 _____ 29
 30 Reserved for future use _____ 30
 31 Amount from Schedule 3, line 15 _____ 31
 32 Add lines 27, 28, 29, and 31. These are your **total other payments and refundable credits** _____ 32
 33 Add lines 25d, 26, and 32. These are your **total payments** _____ 33

Refund
 34 If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you **overpaid** _____ 34
 35a Amount of line 34 you want **refunded** to you. If Form 8879 is attached, check here _____ 35a
 b Routing number _____ b Type: ☐ Direct deposit? ☐ Typing ☐ Checking ☐ Savings
 c Account number _____
 36 Amount of line 34 you want **applied** to your 2025 estimated tax _____ 36

Amount You Owe
 37 Subtract line 33 from line 24. This is the amount you **owe** _____ 37
 38 Estimated tax penalty (see instructions) _____ 38

Third Party Designee
 Do you want to allow another person to discuss this return with the IRS? See instructions. ☐ Yes. Complete below. ☐ No
 Designee's name _____ Phone no. _____ Personal identification number (PIN) _____
 Your signature _____ Date _____ Your occupation _____
 If the IRS sent you an Identity Protection PIN, enter it here (see inst.) _____
 Spouse's signature, if a joint return, both must sign. _____ Date _____ Spouse's occupation _____
 If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.) _____
 Phone no. _____ Email address _____
 Preparer's name _____ Preparer's signature _____ Date _____ PTIN _____
 Tax preparer Use Only: _____
 Tax preparer's name _____ Tax preparer's address _____ Tax preparer's EIN _____

Go to www.irs.gov/Form1040 for instructions and the latest information. Form 1040 (2024)

Exhibit C – IRS Form 1065

Form 1065		U.S. Return of Partnership Income		OMB No. 1545-0022
Department of the Treasury Internal Revenue Service		For calendar year 2024, or tax year beginning _____, 2024, ending _____, 20		2024
Go to www.irs.gov/Form1065 for instructions and the latest information.				
A Principal business activity	Name of partnership	D Employer identification number		
B Principal product or service	Type of Print Number, street, and room or suite no. if a P.O. box, see instructions.	E Date business started		
C Business code number	City or town, state or province, country, and ZIP or foreign postal code	F Total assets (see instructions)		
G Check applicable boxes: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change (5) <input type="checkbox"/> Amended return				
H Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify):				
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year.				
J Check if partnership: (1) <input type="checkbox"/> Aggregated activities for section 405 at-risk purposes (2) <input type="checkbox"/> Grouped activities for section 405 passive activity purposes				
K Check if partnership: (1) <input type="checkbox"/> Aggregated activities for section 405 at-risk purposes (2) <input type="checkbox"/> Grouped activities for section 405 passive activity purposes				
Caution: Include only trade or business income and expenses on lines 1a through 23 below. See instructions for more information.				
Income	1a Gross receipts or sales	b Less returns and allowances	c Balance	1c
	2 Cost of goods sold (attach Form 1125-A)			2
	3 Gross profit. Subtract line 2 from line 1c			3
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)			4
	5 Net farm profit (loss) (attach Schedule F (Form 1040))			5
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			6
	7 Other income (loss) (attach statement)			7
	8 Total income (loss). Combine lines 3 through 7			8
Deductions (see instructions for details)	9 Salaries and wages (other than to partners) (less employment credits)			9
	10 Guaranteed payments to partners			10
	11 Repairs and maintenance			11
	12 Bad debts			12
	13 Rent			13
	14 Taxes and licenses			14
	15 Interest (see instructions)			15
	16a Depreciation (if required, attach Form 4562)	16b		16c
	b Less depreciation reported on Form 1125-A and elsewhere on return			
	17 Depreciation (Do not deduct oil and gas depletion.)			17
Tax and Payment	18 Retirement plans, etc.			18
	19 Employee benefit programs			19
	20 Energy efficient commercial buildings deduction (attach Form 7206)			20
	21 Other deductions (attach statement)			21
	22 Total deductions. Add the amounts shown in the far right column for lines 9 through 21			22
	23 Ordinary business income (loss). Subtract line 22 from line 8			23
	24 Interest due under the look-back method—completed long-term contracts (attach Form 8097)			24
	25 Interest due under the look-back method—income forecast method (attach Form 8806)			25
	26 BBA AAR imputed underpayment (see instructions)			26
	27 Other taxes (see instructions)			27
Sign Here	28 Total balance due. Add lines 24 through 27			28
	29 Elective payment election amount from Form 3800			29
	30 Payment (see instructions)			30
	31 Amount owed. If the sum of line 29 and line 30 is smaller than line 28, enter amount owed			31
	32 Overpayment. If the sum of line 29 and line 30 is larger than line 28, enter overpayment			32
	Under penalty of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than partner or limited liability company member) is based on all information of which preparer has any knowledge.			
Signature of partner or limited liability company member		Date		May the IRS discuss this return with the preparer shown below? (See instructions.) <input type="checkbox"/> Yes <input type="checkbox"/> No
Preparer's name		Preparer's signature		Check <input type="checkbox"/> if self-employed
Preparer's name		Preparer's EIN		
Preparer's address		Preparer's phone no.		

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11393Z Form **1065** (2024)

Exhibit D – IRS Form 1120

Form 1120 Department of the Treasury Internal Revenue Service		U.S. Corporation Income Tax Return For calendar year 2024 or tax year beginning _____, 2024, ending _____, 2024 Go to www.irs.gov/Form1120 for instructions and the latest information.		OMB No. 1545-0123 2024
A Check if: 1a Consolidated return (attach Form 990) <input type="checkbox"/> 1b Unaffiliated consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sec. 1361) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M is attached <input type="checkbox"/>		B Employer identification number _____ C Date incorporated _____ D Total assets (see instructions) \$ _____		E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change
1a TYPE OR PRINT Name _____ Number, street, and room or suite no. If a P.O. box, see instructions. _____ City or town, state or province, country, and ZIP or foreign postal code _____				
Income 1a Gross receipts or sales <input type="checkbox"/> 1b <input type="checkbox"/> 2 Returns and allowances <input type="checkbox"/> 3 Balance. Subtract line 1b from line 1a <input type="checkbox"/> 4 Cost of goods sold (attach Form 1125-A) <input type="checkbox"/> 5 Gross profit. Subtract line 2 from line 1c <input type="checkbox"/> 6 Dividends and inclusions (Schedule C, line 23) <input type="checkbox"/> 7 Interest <input type="checkbox"/> 8 Gross rents <input type="checkbox"/> 9 Gross royalties <input type="checkbox"/> 10 Capital gain net income (attach Schedule D (Form 1120)) <input type="checkbox"/> 11 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) <input type="checkbox"/> 12 Other income (see instructions—attach statement) <input type="checkbox"/> 13 Total income. Add lines 3 through 12 <input type="checkbox"/>				
Deductions (See instructions for limitations on deductions.) 14 Compensation of officers (see instructions—attach Form 1125-G) <input type="checkbox"/> 15 Salaries and wages (less employment credits) <input type="checkbox"/> 16 Repairs and maintenance <input type="checkbox"/> 17 Bad debts <input type="checkbox"/> 18 Rents <input type="checkbox"/> 19 Taxes and licenses <input type="checkbox"/> 20 Interest (see instructions) <input type="checkbox"/> 21 Charitable contributions <input type="checkbox"/> 22 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) <input type="checkbox"/> 23 Depletion <input type="checkbox"/> 24 Advertising <input type="checkbox"/> 25 Pension, profit-sharing, etc., plans <input type="checkbox"/> 26 Employee benefit programs <input type="checkbox"/> 27 Energy efficient commercial buildings deduction (attach Form 7205) <input type="checkbox"/> 28 Other deductions (attach statement) <input type="checkbox"/> 29 Total deductions. Add lines 12 through 28 <input type="checkbox"/> 30 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11. <input type="checkbox"/> 31 Net operating loss deduction (see instructions) <input type="checkbox"/> 29a <input type="checkbox"/> 32 Special deductions (Schedule C, line 24) <input type="checkbox"/> 29b <input type="checkbox"/> 33 Add lines 29a and 29b <input type="checkbox"/> 29c <input type="checkbox"/>				
Tax, Refundable Credits, and Payments 34 Taxable income. Subtract line 29c from line 28. See instructions <input type="checkbox"/> 35 Total tax (Schedule J, line 12) <input type="checkbox"/> 36 Reserved for future use <input type="checkbox"/> 37 Total payments and credits (Schedule J, line 23) <input type="checkbox"/> 38 Estimated tax penalty. See instructions. Check if Form 2220 is attached <input type="checkbox"/> 39 Amount owed. If line 33 is smaller than the total of lines 31 and 34, enter amount owed <input type="checkbox"/> 40 Overpayment. If line 33 is larger than the total of lines 31 and 34, enter amount overpaid <input type="checkbox"/> 41 Enter amount from line 36 you want: Credited to 2025 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/>				
Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge. Signature of officer _____ Date _____ Title _____ Printed/preparer's name _____ Preparer's signature _____ Date _____ PTIN _____ Check <input type="checkbox"/> if self-employed				
Paid Preparer Use Only Firm's name _____ Firm's EIN _____ Firm's address _____ Phone no. _____				
For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11450Q Form 1120 (2024)				

Exhibit E – IRS Form 1120-S

Form 1120-S Department of the Treasury Internal Revenue Service		U.S. Income Tax Return for an S Corporation Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation. Go to www.irs.gov/Form1120S for instructions and the latest information.		OMB No. 1545-0123 2024
For calendar year 2024 or tax year beginning . . . , 2024, ending . . . , 20				
A Selection effective date		Name Number, street, and room or suite no. if a P.O. box, see instructions. City or town, state or province, country, and ZIP or foreign postal code		D Employer identification number
B Business activity code number (see instructions)		TYPE OR PRINT	E Date incorporated	
C Check if Sec. 1361(a)(2) attached <input type="checkbox"/>		F Total assets (see instructions)		
G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No				
H Check if: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return (5) <input type="checkbox"/> S election termination				
I Enter the number of shareholders who were shareholders during any part of the tax year . . .				
J Check if corporation: (1) <input type="checkbox"/> Aggregated activities for section 465 at-risk purposes (2) <input type="checkbox"/> Grouped activities for section 469 passive activity purposes				
Caution: Include only trade or business income and expenses on lines 1a through 22. See the instructions for more information.				
Income	1a Gross receipts or sales	b Less returns and allowances	c Balance	1c
	2 Cost of goods sold (attach Form 1125-A)			2
	3 Gross profit. Subtract line 2 from line 1c			3
	4 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			4
	5 Other income (loss) (see instructions—attach statement)			5
	6 Total income (loss). Add lines 3 through 5			6
Deductions (see instructions for limitations)	7 Compensation of officers (see instructions—attach Form 1125-E)			7
	8 Salaries and wages (less employment credits)			8
	9 Repairs and maintenance			9
	10 Bad debts			10
	11 Rents			11
	12 Taxes and licenses			12
	13 Interest (see instructions)			13
	14 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)			14
	15 Depletion (do not deduct oil and gas depletion)			15
	16 Advertising			16
	17 Pension, profit-sharing, etc., plans			17
	18 Employee benefit programs			18
	19 Energy efficient commercial buildings deduction (attach Form 7205)			19
	20 Other deductions (attach statement)			20
	21 Total deductions. Add lines 7 through 20			21
	22 Ordinary business income (loss). Subtract line 21 from line 6			22
Tax and Payments	23a Excess net passive income or LIFO recapture tax (see instructions)	23a		23c
	b Tax from Schedule D (Form 1120-S)	23b		
	c Add lines 23a and 23b (see instructions for additional taxes)			
	24a Current year's estimated tax payments and preceding year's overpayment credited to the current year	24a		24z
	b Tax deposited with Form 7004	24b		
	c Credit for federal tax paid on fuels (attach Form 4136)	24c		
	d Elective payment election amount from Form 3800	24d		
	z Add lines 24a through 24d			
	25 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>			25
	26 Amount owed. If line 24z is smaller than the total of lines 23c and 25, enter amount owed			26
27 Overpayment. If line 24z is larger than the total of lines 23c and 25, enter amount overpaid			27	
28 Enter amount from line 27: Credited to 2025 estimated tax Refunded			28	
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.				
Sign Here Signature of officer _____ Date _____ Title _____		May the IRS discuss this return with the preparer shown below? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No		
Paid Preparer Use Only Print/Type preparer's name _____ Proprietor's signature _____ Date _____ Firm's name _____ Firm's EIN _____ Firm's address _____ Phone no. _____		Check <input type="checkbox"/> if self-employed PTIN _____		
For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 1151014 Form 1120-S (2024)				

B. Asset & Collateral Evaluation

- Assess the indemnitor's tangible assets (real estate, equipment, investments).
- Check for any liens, encumbrances, or liabilities on assets.
- Ensure assets have sufficient market value to cover obligations.



C. Creditworthiness & Payment History

- Review credit reports and debt obligations.
- Analyze historical loan payments and defaults.
- Check for any pending lawsuits, tax liens, or bankruptcy filings.



D. Cash Flow & Liquidity Reserves

- Determine if the indemnitor has steady income sources (business revenue, rental income, investments).
- Evaluate cash reserves or liquid investments that can cover indemnification.
- Identify any seasonal fluctuations in cash flow.

2 & 3. Assessing financial conditions of principal(s) and bonded projects

A construction company's financial health is crucial for **project financing, bidding, bonding capacity, and long-term sustainability**. The assessment involves analyzing **liquidity, profitability, leverage, efficiency, and cash flow**. Today we are going to be discussing the following considerations when evaluating the principal and bonded projects

- A. Financial Statement Analysis
- B. Project-Specific Risk & Efficiency Analysis
- C. Creditworthiness & Debt Management
- D. Industry & Market Conditions

Assessing the Financial Condition of a Construction Company

A – Financial Statement Analysis

I. Balance Sheet (Assets, Liabilities, and Equity)

Key Areas to Examine:

- **Current Assets:** Cash, accounts receivable (A/R), inventory, work-in-progress (WIP).
- **Fixed Assets:** Equipment, machinery, and property.
- **Current Liabilities:** Accounts payable (A/P), short-term loans, accrued expenses.
- **Long-Term Liabilities:** Loans, leases, bonds, and other long-term debt.
- **Equity:** Retained earnings and owner's investment.

A – Financial Statement Analysis

I. Balance Sheet (Assets, Liabilities, and Equity) - continued

Metric	Formula	Interpretation
Current Ratio	Current Assets / Current Liabilities	Measures short-term liquidity. A ratio >1.5 is good.
Quick Ratio	(Cash + A/R) / Current Liabilities	Excludes inventory; a ratio >1 indicates strong liquidity.
Debt-to-Equity Ratio	Total Debt / Shareholder's Equity	Measures financial leverage. A ratio <2.0 is ideal.
Working Capital	Current Assets - Current Liabilities	Positive working capital indicates financial stability.



A – Financial Statement Analysis

II. Income Statement (Profitability Analysis)

Key Components:

- **Revenue:** Contract revenue, change orders, and project billings.
- **Cost of Construction:** Direct costs, materials, labor, and subcontractor expenses.
- **Gross Profit:** Revenue minus Cost of Construction.
- **Operating Expenses:** Administrative salaries, rent, insurance, equipment maintenance, marketing.
- **Net Income:** After deducting interest, taxes, and non-operating expenses.

A – Financial Statement Analysis

II. Income Statement (Profitability Analysis) - continued

Metric	Formula	Interpretation
Operating Cash Flow to Current Liabilities	Operating Cash Flow / Current Liabilities	Should be >1.0 to ensure liquidity.
Cash Conversion Cycle (CCC)	Days Receivable + Days Inventory - Days Payable	Lower cycle indicates faster cash turnaround.
Free Cash Flow (FCF)	Operating Cash Flow - Capital Expenditures	Determines available cash for growth & debt repayment.



B – Project-Specific Risk & Efficiency Analysis

- **Work-in-Progress (WIP) Schedule:**
 - **Overbilling** may signal short-term cash flow gains but potential future losses.
 - **Underbilling** may indicate delayed revenue recognition or project inefficiencies.
- **Backlog Quality:**
 - Backlog should consist of profitable contracts with strong clients.
- **Project Cost Variance:**
 - Comparing estimated costs vs. actual costs helps identify inefficiencies.

Sample Work-in-Progress (WIP) Schedule

Company Name: [Your Construction Company Name]

Date: [MM/DD/YYYY]

Project Name	Contract Value	Start Date	Estimated Completion	Billed to Date	Cost to Date	% Complete	Estimated Cost to Complete	Total Estimated Costs	Profit/Loss Projection	Over Billings	Under Billings
Project A	\$500,000	01/10/2024	07/15/2024	\$250,000	\$200,000	50%	\$200,000	\$400,000	\$100,000	\$0	\$0
Project B	\$1,200,000	02/01/2024	12/01/2024	\$600,000	\$500,000	45%	\$600,000	\$1,100,000	\$100,000	\$50,000	\$0
Project C	\$750,000	03/15/2024	09/30/2024	\$350,000	\$280,000	47%	\$370,000	\$650,000	\$100,000	\$0	\$20,000
Project D	\$950,000	04/01/2024	11/30/2024	\$400,000	\$350,000	42%	\$600,000	\$950,000	\$0	\$0	\$50,000

Notes:

- The percentage complete is calculated based on cost to date vs. total estimated cost.
- The estimated cost to complete is projected based on remaining work and past expenditures.
- The total estimated costs represent the sum of cost to date and estimated cost to complete.
- The profit/loss projection considers the contract value minus total expected costs.
- Over billings and under billings track discrepancies between billed amounts and actual work completed.

C – Creditworthiness & Debt Management

- **Credit Ratings & Loan Structure:**
 - High debt reliance can indicate financial instability.
- **Bonding Capacity & Surety(s)**
- **Interest Coverage Ratio** = $\text{EBIT} / \text{Interest Expense}$ (>1.5 is ideal).



D – Industry & Market Conditions

- **Construction Industry Trends:** Material costs, labor availability, economic cycles.
- **Competitive Positioning:** Strength in securing projects and managing costs.
- **Legal & Regulatory Compliance:** Permits, safety standards, and legal disputes.

Final Financial Health Assessment

After evaluating all factors, classify the construction company's financial condition:

- ✅ **Strong** – High liquidity, low debt, stable cash flow, profitable projects.
- ⚠️ **Moderate** – Some financial risks, cash flow fluctuations, moderate leverage.
- ❌ **Weak** – High debt, negative cash flow, inconsistent project profitability.

Thank You!



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