



**SPONZILLI HOLDINGS CORP., SUBSIDIARIES AND AFFILIATE**

**CONSOLIDATED FINANCIAL REPORT  
DECEMBER 31, 2015**

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Stockholders  
Sponzilli Holdings Corp., Subsidiaries and Affiliate  
Fairfield, NJ

We have reviewed the accompanying consolidated financial statements of Sponzilli Holdings Corp., Subsidiaries and Affiliate (the "Company") which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, changes in equity and cash flows for the year then ended and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement whether due to fraud or error.

### Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.



WISS & COMPANY, LLP

Livingston, New Jersey  
July 6, 2016

SPONZILLI HOLDINGS CORP., SUBSIDIARIES AND AFFILIATE

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2015

ASSETS

CURRENT ASSETS:

Cash	\$ 644,754
Accounts receivable	1,932,441
Due from shareholders	1,089,300
Prepaid expenses	-
Total Current Assets	<u>3,666,495</u>

PROPERTY AND EQUIPMENT, AT COST

	4,649,364
Less: Accumulated depreciation	<u>2,826,611</u>
	<u>1,822,753</u>
	<u>\$ 5,489,248</u>

LIABILITIES AND EQUITY

CURRENT LIABILITIES:

Accounts payable	934,756
Note payable to banks	369,284
Current Maturities of long-term debt	276,577
Sales taxes payable	97,075
Security deposits	<u>13,930</u>
Total Current Liabilities	<u>1,691,622</u>

LONG-TERM DEBT LESS CURRENT MATURITIES

608,905

COMMITMENTS AND CONTINGENCIES

EQUITY:

Common stock - no par value, authorized 1,000 shares, 100 shares issued and outstanding	1,000
Additional paid-in capital	39,871
Retained earnings	<u>2,781,172</u>
Total Equity Sponzili Holdings Corp. and Subsidiaries	<u>2,822,043</u>
Non-controlling interest	<u>366,678</u>
	<u>\$ 5,489,248</u>

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

SPONZILLI HOLDINGS CORP., SUBSIDIARIES AND AFFILIATE

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2015

REVENUES	\$ 12,596,534
COST OF SALES	<u>5,144,402</u>
GROSS PROFIT	7,452,132
OPERATING EXPENSES	4,675,607
GENERAL AND ADMINISTRATIVE EXPENSES	<u>1,047,121</u>
CONSOLIDATED NET INCOME	1,729,404
LESS: NET INCOME OF NON-CONTROLLING INTEREST	<u>80,208</u>
NET INCOME ATTRIBUTABLE TO SPONZILLI HOLDINGS CORP.	<u>\$ 1,649,196</u>

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

SPONZILLI HOLDINGS CORP., SUBSIDIARIES AND AFFILIATE

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2015

	Total	Common Stock	Additional Paid-in Capital	Retained Earnings	Non-controlling Interest
BALANCES, DECEMBER 31, 2014	\$ 2,472,776	\$ 1,000	\$ 39,871	\$ 2,145,435	\$ 286,470
YEAR ENDED DECEMBER 31, 2015					
Net income	1,729,404	-	-	1,649,196	80,208
Distributions to stockholders	<u>(1,013,459)</u>	<u>-</u>	<u>-</u>	<u>(1,013,459)</u>	<u>-</u>
BALANCES, DECEMBER 31, 2015	<u>\$ 3,188,721</u>	<u>\$ 1,000</u>	<u>\$ 39,871</u>	<u>\$ 2,781,172</u>	<u>\$ 366,678</u>

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

**SPONZILLI HOLDINGS CORP., SUBSIDIARIES AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2015**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Consolidated net income	\$ 1,729,404
Adjustments to reconcile consolidated net income to net cash flows from operating activities:	
Depreciation	426,222
Gain on disposition of equipment	(3,000)
Bad debts	111,800
Changes in operating assets and liabilities:	
Accounts receivable	(457,744)
Prepaid expenses	3,507
Security deposits	3,600
Accounts payable	129,417
Sales taxes payable	<u>(38,530)</u>
Net cash flows from operating activities	<u>1,904,676</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of property and equipment	(87,159)
Proceeds from disposition of equipment	3,000
Due from shareholders	<u>373,045</u>
Net cash flows from investing activities	<u>288,886</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Principal repayments of note payable	(662,797)
Proceeds from note payable	207,500
Principal repayments of long-term debt	(343,665)
Distributions to shareholders	<u>(1,013,459)</u>
Net cash flows from financing activities	<u>(1,812,421)</u>
<b>NET CHANGE IN CASH</b>	<b>381,141</b>
<b>CASH, BEGINNING OF YEAR</b>	<b><u>263,613</u></b>
<b>CASH, END OF YEAR</b>	<b><u>\$ 644,754</u></b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION -</b>	
Interest paid	<u>\$ 43,436</u>
<b>NON-CASH INVESTING/FINANCING ACTIVITY -</b>	
Purchase of property and equipment financed by notes payable	<u>\$ 131,135</u>

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

# SPONZILLI HOLDINGS CORP., SUBSIDIARIES AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(See independent accountants' review report)*

### **Note 1 - Nature of the Business and Summary of Significant Accounting Policies:**

***Principles of Consolidation*** - The consolidated financial statements of Sponzilli Holdings Corp., Subsidiaries and Affiliate (the "Company"), include the accounts of Sponzilli Landscaping, Inc., and wholly-owned subsidiaries, The Hydroseeding Pro, Inc., S-3 Services, LLC and Sponzilli Associates, LLC (collectively the "Subsidiaries") and Sponzilli Family Limited Partnership (the "Affiliate"). These entities are controlled by the same owners. The Affiliate is subject to the Company's control on bases other than voting interests and is hereinafter referred to as variable interest entity ("VIE"). The Financial Accounting Standards Board issued Accounting Standards Codification 810 ("ASC 810") which concludes that a company's exposure to economic risks and potential rewards from variable interest entities' assets and activities are the best evidence of control. This VIE, for which the Company is the primary beneficiary, is consolidated and reflected as the non-controlling interest. The financial position and results of operations presented in the accompanying consolidated financial statements do not represent those of a single legal entity. All intercompany transactions and accounts have been eliminated in consolidation.

***Limited Liability Company and Partnership*** - Each member's and partner's liability in S-3 Services, LLC, Sponzilli Associates, LLC and Sponzilli Family Limited Partnership is limited to their respective member and/or partner equity plus any debt for which a personal guarantee has been given. Under the terms of the Limited Liability and Partnership entity operating agreements, the Companies' existences are perpetual.

***Nature of the Business*** - The Companies provide commercial and residential construction, maintenance, landscaping and snow removal services primarily in the states of New Jersey and New York. The Affiliate owns the facility which leases the space to all of the Subsidiaries for business operations.

***Estimates and Uncertainties*** - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results, as determined at a later date, could differ from those estimates.

***Revenue Recognition*** - The Company performs all services or delivers all products prior to recognizing revenue. Service revenue is recognized at the time services are provided to the customer. Prior to recognizing revenue for residential construction, a customer's fee is either fixed or determinable under the terms of the written contract. Residential construction contracts are short term in nature and revenue is recognized upon completion of the contract. The Company determines that collectability is reasonably assured prior to recognizing revenue. Collectability is assessed on a customer by customer basis based on criteria outlined by management.

***Concentration of Credit Risk*** - The Company maintains its cash balances in financial institutions, which are insured by the Federal Deposit Insurance Corporation up to \$250,000 each. At times, such balances may be in excess of the FDIC insurance limit.

***Concentration of Business Transacted with a Lender*** - As discussed in Notes 3 and 4, the Company has substantially all of its outstanding bank debt with one bank which consists of a line-of-credit and two mortgages.

## SPONZILLI HOLDINGS CORP., SUBSIDIARIES AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(See independent accountants' review report)*

**Receivables** - The Company records trade receivables at net realizable value. Generally, the Company does not require collateral to support its accounts receivable. An evaluation of collectability is made of the balance owed by each customer. Based on the level of past due accounts and relationships with and economic status of its customers, the Company believes the accounts receivable will be fully realized and that no provision for estimated uncollectible accounts is necessary at December 31, 2015.

**Property, Plant and Equipment** - Property, plant and equipment are stated at cost. Buildings, fixtures and equipment are depreciated primarily using the straight-line method over the estimated useful lives of the assets. In general, the estimated useful lives used in computing depreciation are: buildings and major improvements - 39 years; autos - 3 years, trucks, furniture and fixtures, machinery and equipment - 5 to 7 years.

Repairs and maintenance costs are expensed as incurred; major renewals and betterments are capitalized. When assets are disposed of, the assets and related allowances for depreciation are eliminated from the accounts and any resulting gain or loss is reflected in operations.

**Advertising** - Advertising costs are expensed as incurred and totaled \$99,243 in 2015.

**Sales Taxes** - The Company does business in various states and counties within those states which impose a sales tax on all of the Company's sales and equipment rentals to non-exempt customers within those states and counties. The Company collects that sales tax and remits the entire amount to the states. The Company's accounting policy excludes the tax collected and remitted to the states from revenue and cost of sales.

**Income Taxes** - Sponzilli Holding Corp., Sponzilli Landscaping, Inc and The Hydroseeding Pro, Inc. elected under provisions of the Internal Revenue Code and under New Jersey statutes to be taxed as S Corporations. Under these provisions, all earnings and losses of the Company for federal and New Jersey income tax reporting purposes are reported on the income tax returns of the shareholders. Accordingly, no provision has been made for federal income taxes. The Company continues to be subject to New Jersey income taxes at reduced rates.

S-3 Services, LLC and Sponzilli Associates, LLC and Sponzilli Family Limited Partnership are limited liability companies and a limited partnership, respectively, and are not subject to income taxes. No provision has been made for federal and state income taxes since these taxes are the personal responsibility of the members and partners of the respective entities.

The most significant jurisdictions in which the Companies are required to file income tax returns include the U.S. federal jurisdiction, the states of New Jersey and New York, and the City of New York. The Companies are no longer subject to U.S. federal income tax examinations for year ends prior to December 31, 2012. With limited exceptions, the Companies are no longer subject to state income tax examinations for year ends prior to December 31, 2011.

**Subsequent Events** - Management has reviewed and evaluated all events and transactions from December 31, 2015 through July 6, 2016, the date that the consolidated financial statements were available for issuance. The effects of those events and transactions that provide additional pertinent information about conditions that existed at the balance sheet date, have been recognized in the accompanying consolidated financial statements.



**SPONZILLI HOLDINGS CORP., SUBSIDIARIES AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(See independent accountants' review report)*

**Note 2 - Property and Equipment:**

Property and equipment consist of the following as of December 31, 2015:

Land	\$ 200,000
Building	783,561
Equipment	1,332,648
Furniture and fixtures	991,491
Vehicles	1,199,058
Computer equipment	16,814
Building improvements	<u>125,792</u>
	4,649,364
Less: Accumulated depreciation	<u>2,826,611</u>
	<u>\$ 1,822,753</u>

Depreciation expense related to property and equipment was \$426,222 in 2015.

**Note 3 - Note Payable to Banks:**

The Company has a line of credit with a bank that provides for a maximum borrowing of \$1,000,000. The outstanding balance under the line of credit was \$369,284 at December 31, 2015. The line of credit is collateralized by substantially all of the Company's assets and is reviewed by the bank on an annual basis for renewal. Advances on the line are payable on demand and bears interest at a rate of 3.25%. The line of credit is personally guaranteed by the members and partners of the Company, and has cross-default provisions covering all of the Company's bank debt.

**Note 4 - Debt:**

The mortgages on the building owned by the VIE are guaranteed by the members and partners of the Company.

A summary of debt as of December 31, 2015 is as follows:

Mortgage payable to bank in, 60 monthly payments of \$9,333 through October 2018 (interest included in payment). The loan bears interest at 3.75% and is secured by the building purchased.	\$ 308,538
Various equipment and vehicle notes payable to banks, various monthly payments through January 2021. The loans have various interest rates and are secured by the equipment and vehicles purchased.	<u>576,944</u>
	885,482
Less: Current Maturities	<u>276,577</u>
	<u>\$ 608,905</u>

SPONZILLI HOLDINGS CORP., SUBSIDIARIES AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(See independent accountants' review report)*

Long-term debt as of December 31, 2015 matures as follows:

<u>Year Ending December 31,</u>	
2016	\$ 276,577
2017	247,494
2018	234,794
2019	112,756
2020 and later	<u>13,861</u>
	<u>\$ 885,482</u>

**Note 5 - Due from Shareholders:**

Amounts due from shareholders of the Company consist of loans receivable of approximately \$1,089,300. The loans receivable which have no formal repayment terms, are due on demand, and are non-interest bearing.

**Note 6 - Variable Interest Entity:**

The VIE rents property to the Company for business operations. All rent and related expenses are eliminated upon consolidation.

Selected financial information regarding the Company's VIE as of December 31, 2015 is as follows:

	<u>Sponzilli Family Limited Partnership</u>
Total Assets	<u>\$ 852,327</u>
Total Liabilities	<u>\$ 485,649</u>
Total Equity	<u>\$ 366,678</u>
Revenues	<u>\$ 172,380</u>
Net Income	<u>\$ 80,208</u>