DENNIS CORPORATION

STATEMENT OF DIRECT LABOR, FRINGE BENEFITS, AND GENERAL OVERHEAD

DECEMBER 31, 2014

DENNIS CORPORATION
INDEX
YEAR ENDED DECEMBER 31, 2014

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INDEPENDENT ACCOUNTANT'S AUDIT REPORT ON THE STATEMENT OF DIRECT LABOR, FRINGE BENEFITS AND GENERAL OVERHEAD

The Board of Directors
Dennis Corporation
Columbia, South Carolina

We have audited the Statement of Direct Labor, Fringe Benefits and General Overhead (hereinafter referred to as the "Schedule") of Dennis Corporation ("the Company") for the year ended December 31, 2014, and the related notes.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the financial reporting provisions prescribed by Part 31 of the Federal Acquisition Regulations (FAR) and certain other federal and state regulations as discussed in Note 2. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the financial audit standards contained in *Government Auditing Standards,* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

The accompanying Schedule was prepared on a basis of accounting practices prescribed by Part 31 of the Federal Acquisition Regulations and certain other Federal and State regulations as discussed in Note 2, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the direct labor, fringe benefits, and general overhead of the Company for the year ended December 31, 2014, on the basis of accounting described in Note 2. In accordance with *Government Auditing Standards*, we have also issued a report dated June 30, 2015, on our consideration of the Company's internal controls over financial reporting as it relates to the Schedule and our tests of its compliance with certain provisions of laws, regulations and contracts, including provisions of the applicable sections of Part 31 of the Federal Acquisition Regulations.

Restriction on Use

This report is intended solely for the use and information of the Company and government agencies or other customers related to contracts employing the cost principles of the Federal Acquisition Regulation and should not be used for any other purpose.

Derrick, Stubbs & Stith, LLP

Columbia, South Carolina
June 30, 2015

Dennis Corporation
Statement of Direct Labor, Fringe Benefits and General Overhead
For the year ended December 31, 2014

	GENERAL LEDGER ACCOUNT BALANCE	COST ADJUSTMENTS	FAR REF.	TOTAL PROPOSED	% OF DIRECT LABOR
Direct Labor	$ 1,153,821	$ -		$ 1,153,821	100.0%
Indirect Labor					
FRINGE BENEFITS					
Personal paid leave	$ 35,652	$ -		$ 35,652	3.1%
Employee group insurance	35,797	-		35,797	3.1%
Payroll taxes	167,211	(5,040)	**(A)**	162,171	14.1%
Workers compensation	32,518	-		32,518	2.8%
Other employee benefits	-	-		-	0.0%
TOTAL FRINGE BENEFITS	271,178	(5,040)		266,138	23.1%
General Overhead					
Indirect labor	684,798	(65,878)	**(B)**	618,920	53.6%
Accounting fees	27,696	-		27,696	2.4%
Advertising	519	(519)	**(B)**	-	0.0%
Automobile	20,936	-		20,936	1.8%
Bad debt	48,418	(48,418)	**(C)**	-	0.0%
Bank charges and processing fees	28,178	-		28,178	2.4%
Business development	143,734	(98,455)	**(B)(I)(K)**	45,279	3.9%
Contributions	7,023	(7,023)	**(D)**	-	0.0%
Depreciation and amortization	151,778	(44,207)	**(H)(M)**	107,571	9.3%
Dues and professional licenses	16,139	-		16,139	1.4%
Fines and penalties	2,489	(2,489)	**(E)**	-	0.0%
Insurance	22,965	-		22,965	2.0%
Interest expense	177,889	(177,889)	**(F)**	-	0.0%
Leased equipment	223,608	(124,833)	**(G)(H)**	98,775	8.6%
Meals expense	9,274	-		9,274	0.8%
Office supplies and postage	46,409	(3,291)	**(B)(J)(K)**	43,118	3.7%
Professional services	76,952	-		76,952	6.7%
Rent and utilities	300,168	(251,943)	**(H)(M)**	48,225	4.2%
Repairs and maintenance	44,650	-		44,650	3.9%
Seminars and professional education	14,404	-		14,404	1.2%
Taxes and licenses	79,140	-		79,140	6.9%
Telecommunications	28,006	-		28,006	2.4%
Travel	46,934	(3,835)	**(I)(L)**	43,099	3.7%
TOTAL GENERAL OVERHEAD	2,202,107	(828,780)		1,373,327	119.0%
TOTAL INDIRECT COSTS AND OVERHEAD RATE	$ 2,473,285	$ (833,820)		$ 1,639,465	142.1%
Facilities Capital Cost of Money				$ 6,512	0.6%

FAR References and Notes

(A 31.201-6(a): When an unallowable cost is incurred, its directly associated costs are also unallowable.
(B) 31.205-1(f): Costs for public relations and advertising costs designed to call favorable attention to the contractor and its activities are unallowable.
(C) 31.205-3: Bad debts, including actual and estimated losses arising from uncollectible accounts receivable due from customers and other claims, and any directly associated costs such as collection costs and legal costs are unallowable.
(D) 31.205-8: Contributions or donations are unallowable.
(E) 31.205-15: Fines and penalties are unallowable.
(F) 31.205-20: Interest is disallowed.
(G) 31-205-6(m)(2): The portion of costs of company furnished automobiles that relates to personal use by employees is unallowable regardless of whether the costs is reported as taxable income to employees.
(H) 31.205-36(b)(3): Limitations on rent charges paid to related parties.
(I) 31.205-14 & 31.205-51: Costs of entertainment and alcoholic beverages are disallowed.
(J) 31.201-3(b)(1): Costs generally not recognized as ordinary and necessary for conduct of business are unallowable.
(K) 31.205-13(b): Costs of gifts are unallowable.
(L) 31.202: Exclude direct project costs (both billable and non-billable costs) from the indirect cost pool.
(M) 31.205-17(b): The costs of idle facilities are unallowable.

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Dennis Corporation is a Southeastern licensed engineering, surveying and construction management firm specializing in a wide range of projects. Dennis Corporation offers professional services for civil infrastructure, construction management, construction services, expert witness services, informational technology, intelligent transportation systems (ITS), roadway design, special projects, special inspections, structural engineering, building construction management, environmental inspections, steel inspections, surveying and traffic engineering for both public and private clients. The Company, a South Carolina corporation, was incorporated on June 13, 2005. The Company has offices in Columbia (headquarters), Chester, and Mt. Pleasant, South Carolina and Hurricane, West Virginia with approximately 29 employees.

Basis of accounting: The Company's Statement of Direct Labor, Fringe Benefits and General Overhead (the "Schedule") was prepared on the basis of accounting practices prescribed in Part 31 of the Federal Acquisition Regulations (FAR). Accordingly, the Schedule is not intended to present the results of operations of the Company in conformity with accounting principles generally accepted in the United States of America.

The Company maintains an integrated job-order cost accounting system for recording and accumulating costs incurred under its contracts wherein contracts and subcontracts are assigned individual project numbers. Direct costs are coded to the corresponding project number so that they may be segregated and accumulated in the Company's job-order cost accounting system. The Company identifies a cost as a direct cost if it can be specifically identified with a particular final cost objective, (i.e. a project related cost.) It is irrelevant whether or not the costs are actually billed. Direct costs are not included in the overhead pool and direct accounts have been established in the Company's general ledger. The Company considers a cost to be an indirect cost if the cost is not directly identified with a single, final cost objective, but is identified with two or more final cost objectives or an intermediate cost objective.

Overhead rate structure: The Company has one reporting unit. The unit reports overhead expenses on a Company-wide basis using one overhead pool. The overhead expense pool includes the fringe benefit costs.

Overhead expenses are allocated to projects based upon total direct labor dollars. The direct labor base includes all salaries and wages and the premium portion of paid overtime specifically identified with a project except compensated personal absences (holidays, vacations, sick leave and excused absences).

Fringe benefits include costs for compensated personal absence, payroll taxes, insurance, group insurance and other personnel related costs.

Other direct costs are consistently recorded to projects whether such costs are reimbursed or not. These costs include but are not limited to consultants, travel and postage.

Revenue and cost recognition: Revenue on cost-plus contracts is recognized primarily as work progresses and as labor hours and expenses are incurred on consulting engagements.

Changes in contract performance, contract conditions, and profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to revenue and costs, and are recognized in the year in which such revisions are determined.

The Company's method of estimating costs for pricing purposes during the proposal process is consistent with the accumulation and reporting of costs under its job-order cost accounting system.

Property and equipment: Certain assets are purchased and depreciated, while others are leased under operating leases and the annual lease costs are included in the indirect cost pool.

The Company depreciates purchased assets over the estimated useful lives of the related assets using straight-line and accelerated methods. Estimated useful lives range from 3 to 7 years. Depreciation expense of $ 107,571 has been included in the indirect cost pool for the year ending December 31, 2014. The gain or loss on disposal of property and equipment is recognized in the year of disposition.

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure. Accordingly, actual results could differ from those estimates.

Unallowable costs: Unallowable costs are those not considered either reasonable or allocable to one or more cost objectives or that are otherwise specifically identified in FAR as unallowable costs.

Advertising: The Company expenses advertising costs as these costs are incurred.

Note 2. Description of Labor Related Costs

Project labor: The Company charged labor to all projects using standard hourly rates.

Variances: Variances are recorded in the accounting system when payroll is processed. A variance occurs when an employee works more or less than 40 hours during one week.

Paid time off: Regular full-time employees (average of 32 hours or more per week) are eligible for 12 days of Paid Time Off (PTO) to be used for vacation or sickness each calendar year. In addition, there are 9 mandatory paid holidays each calendar year.

Upon termination of employment for any reason, the payment of unused PTO will be at the sole discretion of management. There is no accrual of PTO during the month of departure. Any negative PTO balance will be treated as an advance on wages, and may be deducted from the employee's final paycheck, to the extent permitted by federal wage and hour regulations.

PTO is calculated using the employee's current base rate of pay and is paid on regular paydays. PTO does not include overtime, bonuses, incentive pay, or other special forms of compensation.

Comp time: The Company does not have a comp time policy.

Paid overtime and uncompensated overtime:

Premium overtime - Costs are incurred in meeting certain deadlines. Hourly employees are compensated for overtime via a cash payment equal to time and a half (premium portion) for all hours worked in excess of 40 hours. The premium portion of paid overtime is included in direct labor if specifically identified; otherwise it is in the indirect cost pool.

Uncompensated overtime - The Company does not pay salaried employees for time worked in excess of 40 hours per week. The time in excess of 40 hours is credited to the indirect cost pool. The credited amount consists of hours worked in excess of 40 multiplied by the employee's standard hourly rate.

Reasonable compensation levels: No senior executive compensation was in excess of the reasonable compensation levels.

Retirement plan: The Company has a 401(k) plan effective October 1, 2007, covering substantially all employees with no waiting period. The Company may make discretionary matching or profit sharing contributions to the plan subject to certain limitations. The Company did not make any discretionary contributions to the plan for the year ending December 31, 2014.

Contract labor: The Company uses contract labor for engineering related services and bills this labor as other direct costs.

Personal use of company vehicles: T he officers of the Company have personal usage of Company vehicles, which is tracked through vehicle logs. Amounts attributable to this personal use, $ 13,969 for 2014, were disallowed in compliance with FAR 31.205-6(m)(2).

Notes to Financial Statements

Note 3. Related Party Transactions

The Company leases two offices, a boat, and a fleet of vehicles from a related party entity. The rental costs recorded in the Company's financial statements include $ 268,837 charged by the related entity for the two offices. The calculation to determine the allowable portion of rent is as follows:

Total rent expense (from related party entity)	$	268,837
Less: Unallowable interest expense		(105,145)
Less: Income included in rental charges		(126,471)
Plus: Facilities capital cost of money		33,673
Less: Idle facilities adjustment		(54,000)
Allowable portion of rent paid to related party	$	16,894

Consequently, rental expense has been reduced by $ 251,943 ($ 268,837 rent expense less $ 16,894 allowable portion) in accordance with FAR 31.205-36(b)(3).

The Company's lease costs charged by the related entity for the vehicle fleet/boat totaled $ 223,608 for the year ending December 31, 2014. The calculation to determine the allowable portion of rent for the vehicle fleet/boat is as follows:

Total lease expense (from related party entity)	$	223,608
Less: Unallowable interest expense		(17,213)
Less: Income included in rental charges		(93,651)
Less: Personal use of automobiles adjustment		(13,969)
Allowable portion of lease expense paid to related party	$	98,775

Therefore, equipment lease expense has been reduced by $ 124,833 ($ 223,608 rent expense less the allowable portion of expense of $ 98,775) in accordance with FAR 31.205-36(b)(3).

Note 4. Facilities Capital Cost of Money

The cost-of-money rate has been calculated in accordance with FAR 31.205-10, using average net book values of equipment and facilities multiplied by the prompt payment act rate for the applicable period. Equipment and facilities include building, equipment, furniture, and software and office equipment. The calculation was made as follows:

Net book value of corporate assets	$	316,128
Average treasury rate		2.06 %
Computed facilities capital cost of money	$	6,512
Direct labor base	$	1,153,821
Cost of money rate		0.6%

Note 5. Summary

The following tabulations summarize the allowable overhead rates incurred by the Company for the year ended December 31, 2014:

Companywide rate:	
Fringe benefit rate	23.1%
General overhead	119.0%
Combined rate	142.1%

Note 6. Subsequent Events

The Company has evaluated subsequent events through June 30, 2015, which is the date the financial statements were available for to be issued.

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INDEPENDENT ACCOUNTANT'S REPORT ON INTERNAL CONTROLS AND COMPLIANCE

The Board of Directors
Dennis Corporation
Columbia, South Carolina

We have audited the Statement of Direct Labor, Fringe Benefits and General Overhead (hereinafter referred to as the "Schedule") of Dennis Corporation (the Company) for the year ended December 31, 2014, and have issued our report thereon dated June 30, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

The management of the Company is responsible for establishing and maintaining internal control over financial reporting. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls over financial reporting. The objectives of internal control over financial reporting are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with Part 31 of the Federal Acquisition Regulations. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate. For purpose of this report, we have classified significant internal controls over financial reporting into two categories: cash disbursements and payroll.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report financial data reliably in accordance with Part 31 of the Federal Acquisition Regulations such that there is more than a remote likelihood that a misstatement of the Company's Statement that is more than inconsequential will not be prevented or detected by the Company's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's Statement will not be prevented or detected, and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's Schedule is free of material misstatement, we performed tests of the Company's compliance with certain provisions of laws, regulations, contracts and grant agreements, including the provisions of the applicable sections of Part 31 of the Federal Acquisition Regulations, noncompliance with which could have a direct and material effect on the determination of the amounts reported on the Schedule. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Restriction on Use

This report is intended solely for the information and use of the Company and government agencies or other customers related to contracts employing the cost principles of the Federal Acquisition Regulations. This report is not intended to be and should not be used for any other purpose.

Derrick, Stubbs & Stith, LLP

Columbia, South Carolina
June 30, 2015