

ANNUAL AUDIT WORKING PAPERS 2023

Summit Digital Solutions, Inc.

For the Fiscal Year Ended December 31, 2023

1. AUDIT SCOPE AND METHODOLOGY

1. These working papers document the annual financial audit of Summit Digital Solutions, Inc. ("the Company") for fiscal year 2023, conducted in accordance with Generally Accepted Auditing Standards (GAAS) and Public Company Accounting Oversight Board (PCAOB) standards.

2. Primary audit objectives include:

- Verification of financial statement accuracy and compliance
- Assessment of internal controls
- Evaluation of revenue recognition practices
- Review of digital transformation service contracts
- Analysis of AI/ML implementation project accounting
- Validation of IoT systems integration revenue

2. REVENUE ANALYSIS AND VERIFICATION

1. Revenue Composition

- Enterprise Digital Transformation Services: \$52,500,000
- IoT Systems Integration: \$17,500,000
- Process Automation Solutions: \$12,250,000
- Recurring Maintenance & Support: \$5,250,000

Total Revenue: \$87,500,000

2. Revenue Recognition Methodology

- Performance obligation identification per ASC 606
- Contract milestone completion tracking
- Time-and-materials billing verification
- Project completion percentage calculations

3. ACCOUNTS RECEIVABLE EXAMINATION

1. Aging Analysis as of December 31, 2023

- Current: \$12,375,000
- 30-60 days: \$3,250,000
- 61-90 days: \$875,000
- >90 days: \$425,000

Total A/R: \$16,925,000

2. Allowance for Doubtful Accounts

- Beginning balance: \$425,000
- Additions: \$275,000
- Write-offs: \$(175,000)
- Ending balance: \$525,000

4. COST STRUCTURE ANALYSIS

1. Direct Costs

- Professional services labor: \$31,500,000
- Technology licensing: \$8,750,000
- Hardware/equipment: \$4,375,000
- Third-party services: \$3,500,000

2. Operating Expenses

- Sales & marketing: \$8,750,000
- Research & development: \$7,875,000
- General & administrative: \$6,125,000
- Facilities & infrastructure: \$3,500,000

5. BALANCE SHEET VERIFICATION

1. Assets

- Cash and equivalents: \$12,500,000
- Accounts receivable (net): \$16,400,000
- Fixed assets: \$4,375,000
- Intangible assets: \$15,750,000

- Other assets: \$2,625,000

Total Assets: \$51,650,000

2. Liabilities

- Accounts payable: \$5,250,000
- Accrued expenses: \$4,375,000
- Deferred revenue: \$7,875,000
- Long-term debt: \$12,500,000

Total Liabilities: \$30,000,000

6. INTERNAL CONTROLS ASSESSMENT

1. Control Environment

- Board oversight effectiveness: Satisfactory
- Management control philosophy: Strong
- Organizational structure: Appropriate
- Personnel policies: Compliant

2. Risk Assessment Procedures

- Contract review process: Enhanced
- Revenue recognition controls: Adequate
- Project milestone tracking: Robust
- Client acceptance procedures: Sufficient

7. SIGNIFICANT ACCOUNTING POLICIES

1. Revenue Recognition

- Performance obligations identified at contract inception
- Revenue recognized upon milestone completion
- Time-and-materials billing recorded as services delivered
- Support services recognized ratably over service period

2. Capitalization Policies

- Software development costs capitalized per ASC 350-40

- Hardware/equipment capitalized above \$5,000
- Intangible assets amortized over 3-5 years
- Research costs expensed as incurred

8. AUDIT CONCLUSIONS AND RECOMMENDATIONS

1. Financial Statement Opinion

Based on our examination, the financial statements present fairly, in all material respects, the financial position of Summit Digital Solutions, Inc. as of December 31, 2023.

2. Internal Control Recommendations

- Enhance project milestone documentation
- Implement automated revenue recognition tracking
- Strengthen contract review procedures
- Update capitalization thresholds

9. CERTIFICATION AND SIGNATURES

The undersigned hereby certify that these working papers accurately reflect the audit procedures performed and conclusions reached for Summit Digital Solutions, Inc.'s 2023 annual audit.

PREPARED BY:

[Signature]

Sarah Johnson, CPA

Lead Audit Partner

Johnson & Associates, LLP

Date: February 15, 2024

REVIEWED BY:

[Signature]

Michael Chen, CPA

Quality Review Partner

Johnson & Associates, LLP

Date: February 16, 2024

10. DISCLAIMERS AND LIMITATIONS

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