CE

CONSTRUCTION EXECUTIVE

PLUS

The 15th Annual **Construction Accounting** Special Section

THE TOP 50 CONSTRUCTION ACCOUNTING FIRMS

The Top 50 Construction Accounting Firms™: Advising Businesses in the Midst of a Recession and a Pandemic

BY CYBELE TAMULONIS

As the nation grapples with the ongoing COVID-19 crisis, construction CPAs have been tirelessly advising clients to keep their businesses healthy and viable even as they face unprecedented new challenges on multiple fronts. Jobsites are reopening with new health and safety precautions in place, and contractors are assessing backlog schedules and rehiring workers that were furloughed or laid off when the industry had shed more than a million jobs at the end of April.

In May and June, however, industry employment rebounded, adding 591,000 jobs and recovering an estimated 56% of jobs lost since the start of the pandemic, according to an Associated Builders and Contractors' analysis of recent data from the U.S. Bureau of Labor Statistics. While this number is stunning—and an indication that economists clearly missed the mark in their original predictions on COVID-19's market impact—times remain tense as the country experiences a resurgence of new infections in its most densely populated states.

For this 2020 ranking of *The Top 50 Construction Accounting Firms*, *Construction Executive* reached out to hundreds of U.S. accounting firms with a dedicated construction practice to learn how they were guiding their clients in the midst of ongoing economic uncertainty. Among their top concerns were the shortage of skilled workers, increasing construction costs, reducing risk and managing cash flow.

WORKFORCE CONCERNS

"The pandemic has affected construction clients very differently based on both the states and regions in which they primarily operate, as well as the industry sectors that they serve," says Jon Zeiler, managing partner of Crowe's construction and real estate practice. "Areas where construction was deemed not essential were hit the hardest with a large number of jobs delayed for two or more months and many having to furlough employees during this time."

"Acquiring and retaining qualified labor is an entrenched issue for contractors, exacerbated by the coronavirus," says Joseph Natarelli, leader of Marcum's national construction practice. "The question now becomes: will qualified skilled laborers return when the country re-opens? Or will they use this as an opportunity to find employment elsewhere?"

The Top 50 Construction Accounting Firms, Practice Areas

99% Audit, Accounting and Assurance

99% Tax Preparation

98% Employee Benefit Plans

98% Litigation Support/Expert Testimony

96% Fraud Investigations

95% Mergers & Acquisitions

95% Succession Planning

94% Risk Management

91% Business Planning

90% Bookkeeping

89% Valuation Services

86% Forensic Accounting

79% Family Office

67% Wealth Management

65% Surety Bonding Assistance

48% Credit Assistance

"Luckily, contractors were able to maintain more workers than they otherwise would have because of the PPP loans. Had that not happened, the result could have been devastating not just to them, but to the industry as a whole," Zeiler says.

According to the U.S. Small Business Administration's most recent report on the Paycheck Protection Program, the construction industry has received 12.38% of loans, ranking it third in approvals through June 30, and ensuring the survival of many businesses.

"Many of the loans will only be partially forgiven, but the good news is that the remaining portion retains a low interest rate and may be payable over two years," adds Brian Bohman, partner at Wipfli.

Workers that are receiving unemployment checks must weigh the decision whether to return. "Additional unemployment benefits available from congressional action may make it harder to rehire workers since they may benefit more from unemployment than from their normal paycheck," notes Larry May, partner at Carr, Riggs & Ingram.

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> Partner at Carr, Riggs & Ingram

"Between health concerns and supersized unemployment benefits, which will end, there is an immediate struggle to staff projects," says Carl Oliveri, construction practice leader at Grassi. "People will come back eventually, but the first and largest step is for the construction contractor to invest in and roll out protocols to ease concerns."

Michael Ceschini, managing partner for Ceschini CPAs, agrees. "Since working from home isn't an option for laborers, contractors must reiterate the importance of practicing health consciousness to their employees—taking the day off if they are feeling sick, adhering to social distancing guidelines and washing hands as often as possible. These practices also put pressure on construction company owners to ensure that these protocols are adhered to, not just for health reasons, but to avoid unwanted fines," Ceschini says.

For all of these reasons and more, contractors face increased competition for skilled workers willing to return. "Construction firms are ultra-competitive and looking to provide the best culture to attract employees from other companies," says Martin McCarthy, managing partner at McCarthy & Co. "Employees have leverage, and the best companies acknowledge this."

Bohman agrees. "Although money may be the ticket into the ballgame of work, it's culture and engagement that wins it. Fostering a great reputation matters—a lot. Turnover is expensive in many ways. Successful construction companies devote resources to having an HR manager and a recruiter who can engage with employees, high schools, trade/technical colleges and universities," he says.

RISING COSTS

Construction costs were expected to rise incrementally in 2020, but the pandemic changed that outlook immediately. With additional money being spent on PPE for workers and the reality that the industry is China-dependent, construction firms are reassessing their contingency plans. Delays and increased material costs prompted renewed interest in seeing manufacturing return to the United States While this may seem like an ideal solution to both employment and supply issues, it's an undertaking easier said than done. When the United States exported manufacturing overseas, it also exported risk and pollution, something the nation may be unwilling to take back. For now, at least, increased pricing is here to stay.

"Alternative sources for building materials in Europe and South America also suffered in Q2 as lockdowns spread throughout the world. With these delays, material price increases are expected to continue for the near future," Natarelli says.

Methodology for *The Top 50 Construction Accounting Firms*

CE developed *The Top 50 Construction Accounting Firms* ranking by asking hundreds of U.S. construction accounting firms to complete a survey. Data collected included: 1) 2019 revenues from construction practice; 2) number of CPAs in construction practice; 3) percentage of firm's total revenues from construction practice; 4) number of construction clients in 2019; 5) number of office locations with a construction accounting practice; 6) number of employees with CCIFP certification; and 7) year construction accounting practice established. The ranking was determined by an algorithm that weighted these factors in descending order of importance. Note: A number of accounting firms elected not to share revenues, which affected their ranking. For more information, contact surveys@magazinexperts.com.

NATIONAL STRATEGIC LEADERSHIP TEAM

Julian Xavier
Incoming, CLA Construction Managing Principal

Emily Gunther
Architects and Engineers Leader

Teresa Arrighi
Northern California Leader

Jill Bosco
CLA Construction Managing Principal

Ben Theuninck
National Construction Tax Leader

Mike Africk
Construction Industry COVID-19 Professional and Succession Planning

Darrel Mullenbach
Upper Midwest Leader

Jay Triolo
Central Region Leader and Emerging Construction Professionals

Tim Mahoney
Data Analytics and Emerging Construction Professionals

Jeffrey Nesbitt
Mountain Leader and National Director of Consulting

Chad Zeller
Wisconsin Leader

Rising costs are not just restricted to materials and labor. As Ceschini points out: "The greatest concern I repeatedly hear is the rising cost of insurance. As security requirements expand amidst the virus outbreak, contractors will see an ever-increasing need for insurance to properly protect themselves."

Increased training expenses are another unforeseen consequence of the virus. "Small to large contractors are incurring unforeseen costs to provide COVID-19-related training to their labor forces, including information on how to interact with others using social distancing to stay safe on the jobsite," says Mike Karlins, partner at Calvetti Ferguson.

"In order to provide change order documentation to general contractors or owners, unforeseen costs and schedule impacts must be both identified and quantified.

-Brian Bohman,
Partner at Wipfli

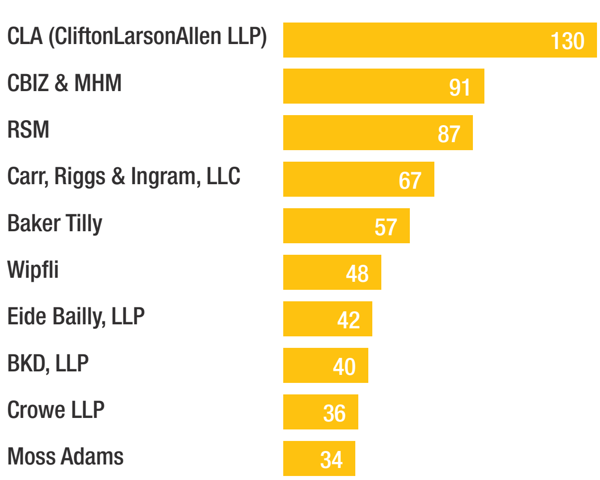
"The current pandemic is certainly causing additional unforeseen costs and delays—costs that could not have been predicted as recently as a few months ago, let alone at the time of the original contract. In order to provide change order documentation to general contractors or owners, unforeseen costs and schedule impacts must be both identified and quantified," Bohman advises. "Track and log any unique costs and schedule impacts that are associated with COVID-19 expenses. Have a contingency plan for anything vital. If you have a key material, explore multiple sources. Different locations are experiencing different restrictions; don't assume that any supplier will be exempt from disruption. Contractors need to look at adding new contract clauses to allow for material cost changes and must be diligent with locking in material pricing, tracking changes and producing documentation."

"Contractors have developed new operating protocols to incorporate additional hand-washing stations, required mask usage and social distancing on jobsites. In some cases, this has resulted in additional shifts with fewer workers per shift," Zeiler notes. "Some project sites have staggered employee start times to avoid long lines for daily temperature checks and hoists. Contractors are attempting to capture the productivity impact of these measures and seek reimbursement for the unplanned additional costs under force majeure clauses in contracts."

Other unforeseen expenses can include increased "costs to mobilize and demobilize, direct costs incurred and indirect costs by analyzing efficiency rates before COVID-19 and after," says Elaine Ervin, partner and leader of Moss Adams' construction practice. "Be diligent regarding cash flow, forecasting, management and maintaining a strong corporate treasury."

In short, additional costs due to the pandemic should be carefully itemized and contractors should not be wary of passing those costs along to clients.

Top 10 Accounting Firms Ranked by Most Office Locations in the U.S.



THE BACKLOG EFFECT

"At the start of the year, many of our clients were expecting an increased backlog compared to last year. That has changed over the past couple months as the percentage of clients expecting an augmented backlog has decreased," Natarelli says. "However, as states reopen, they should be able to resume the work that has been on hold and rehire lost labor. By year-end, backlog may not be as originally expected, but it should be at a healthy level as long as new restrictions are not imposed in the fall."

"Contractors are concerned about what business activity they can project for the next 18 to 24 months as they work off their backlog," says Ron Lenz, partner at Katz, Sapper & Miller. Lenz notes that new bidding opportunities at the federal, state and local level have drastically slowed as the double whammy of declining tax revenues and increasing unemployment claims have combined to cripple budgets for government-funded construction projects.

"Projects that were going to bid in the third and fourth quarters of this year have been delayed until early 2021. The hope is that the projects will still go to bid and not be canceled," Karlins observes. "As we did during the financial crisis a decade ago, we've told many contractors to quickly reduce overhead as backlogs contract. Don't wait too long to lay off employees if necessary. If they wait too long, the company's equity may substantially decrease resulting in an inability to get future work bonded."

With many large corporations getting used to and seeing the benefits of remote work, there is also a growing concern that new corporate building projects may slow down. On the flip side, companies and municipal buildings that opt to stay "in-office" will be looking toward designs that incorporate private and health-conscious spaces which could result in new opportunities for contractors. In the interim, shorter backlogs remain a concern.

TOUGH DECISIONS

Contractors are tough by definition. It takes resilience to stand firm in the mercurial nature of the industry when so much inherently depends on weather, regulations and the economic forces of global markets, capital, labor, supply and demand. Times of economic crisis are an opportunity to assess business practices and the tougher questions about a struggling construction firm's long-term viability.

"Business owners have a tendency to skip the strategic plan, running by gut and emotion instead," Bohman notes. "But emotions run high in uncertain times. One of your most important roles as a leader right now is to establish a sense of calm. That starts with guarding against your own emotional reactions. Contractors cannot be ad hoc in their thinking right now. This is the time to analyze and plan, even though those plans need to be agile, changing as circumstances dictate. Surround yourself with people you trust, be transparent with them about what's really happening in your business, and ask for options so you can make the best decision in the situation at hand."

Communication is paramount for those facing uncertainty. Dealing with uncomfortable situations should be attacked head on. "If a construction business is fighting for survival, we recommend evaluating your options and developing a plan before the company is too far gone," says Tracy Tufts, director at LaPorte CPAs. "Options to consider include whether to sell your business, merge, liquidate or suspend operations for the duration."

"Unfortunately the reality is some businesses will not make it," McCarthy says. "Those that have working capital will find that the reason we counsel them to retain working capital is the reason they survive. Businesses may have to liquidate equipment, reduce their scope of

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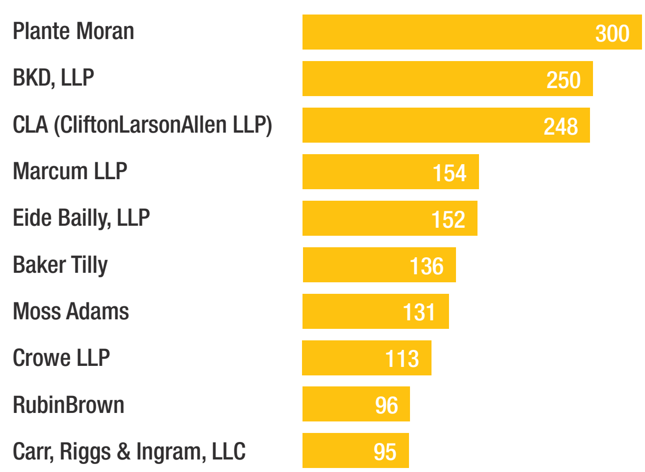
> -Mike Karlins
> Partner at Calvetti Ferguson

Top 10 Accounting Firms Ranked by Number of Construction CPAs



> *"If a construction business is fighting for survival, we recommend evaluating your options and developing a plan before the company is too far gone.*
>
> -Tracy Tufts
> Director at LaPorte CPAs

services, have meaningful discussions with creditors and make very hard decisions."

Combining operations is an option for some companies that wish to remain viable. Merging operations can reduce costs such as office overhead, staff and equipment. If this isn't an option, getting in touch with your legal advisor, your accountant and then your bankers is paramount when formulating a successful exit plan. "Exiting a construction business, other than declaring bankruptcy, is a challenge," Lenz says. "If someone intends to close, they should work off their backlog and not bid new projects."

"The number one reason why contractors fail is cash flow related," Oliveri says. "During the shutdown, I saw open requisitions being funded. As there was little to no work being put in place, the outflow was minimal. Coupled with the PPP loan, there will be instances where contractors are liquid as the industry reopens. However, that cash will fly out the door without proper planning. Pay cycles will be extended, labor and material costs will rise, not to mention the investments in PPE. If a construction company isn't expecting to survive this, they should start to plan for a shutdown, consulting with their advisors to ensure the collateral damage is controlled and all obligations are negotiated."

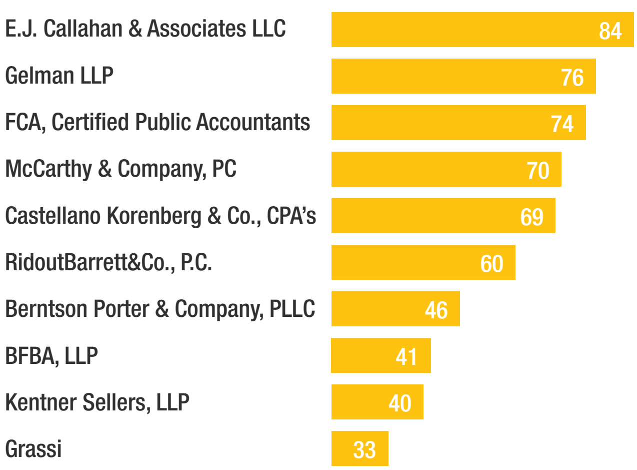
THE GETTING PAID PARADOX

For an industry that pumps billions of dollars into the economy, it is a hard truth that getting paid remains one of the most difficult issues for general contractors which in turn delays payments to subcontractors and vendors. The stress of "hurry up and wait" to get paid often necessitates short-term loans to pay employees while passing up opportunities to bid new jobs. The art of prompt payment relies on many factors, but key among them are an airtight contract, impeccable documentation and enforceable liens.

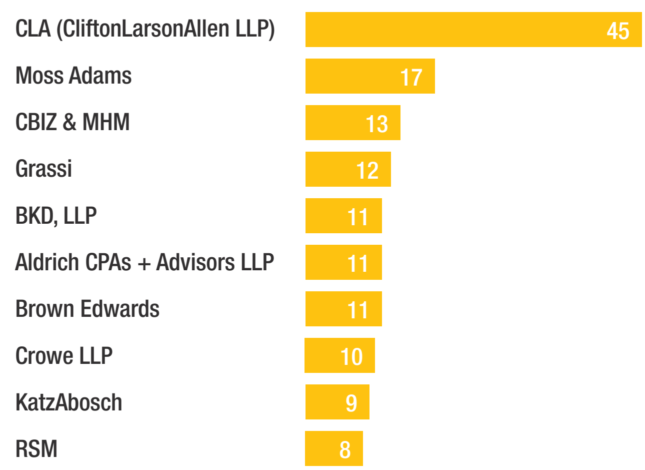
"Many firms are now doing a much better job of documenting support for monthly requisitions," McCarthy says. "The more data provided to support an invoice to a general contractor or sub, the better the chance to have it processed. Always make sure the payment request mirrors the contract provisions. Lastly, be on top of all ticket work and convert them to change orders promptly," he advises.

Negotiating your contract thoroughly and adding interest penalties can help with getting paid as well. "From a general contractor's perspective, we have seen companies negotiate hard on payment terms at the onset of the contract, either reducing the days until payment or building in an interest component into their bids for those projects with extended payment terms, which we have seen range from 90 to 360 days," Zeiler says. "In limited cases, owners are offering earlier payment if the general contractor is willing to take a discount; however, these terms are typically not palatable

Top 10 Accounting Firms Ranked by % of Revenue From Construction



Top 10 Accounting Firms Ranked by Total # of Employees In U.S. with CCIFP Certification in 2019



given where most general contractor margins currently are. From a subcontractor's perspective, the pay-when-paid clauses of most general contractors' standard contracts have caused their accounts receivable days outstanding to increase significantly in recent years.

"Communication is key," says Salvatore Leone, co-leader of Citrin Cooperman's construction practice. "No one likes an unexpected bill. Successful collections happen for contractors that are in regular contact with customers, that discuss any potential change orders as soon as possible and that give ample reasoning for the extra charges. Successful firms build relationships with their customers. Showing the value that their firms provide not only expedites collection efforts but also creates future project opportunities."

Bohman agrees. "When a new contract is obtained, best practice is to review it for the required format, timing and supporting documentation for billing and essentially perform a dry run with the owner or general contractor to confirm your understanding of the requirements," he says. "This will assure prompt processing and payment, avoiding the 'you forgot to submit this for payment' excuse. When the first actual billing is submitted, call or email to confirm that it was received, everything is in order and the exact date payment will be received to avoid the 'we never received your billing' or 'it was received late' excuses. Continue the same process with future billings until everything is running smoothly and you are confident that you will receive prompt payments."

Knowing the laws of the state you are doing business in helps accelerate prompt payment as well. "In the current environment, filing and maintaining construction lien rights will become even more important," says Tim Pass, principal of Smith Schafer & Associates.

RETIREMENT PLANS: TO CUT OR NOT TO CUT?

If one thing is certain, it's that the COVID-19 crisis forced many issues out into the light that employers were neglecting. As the stock market took some serious hits in the early stages of the pandemic and then slowly recovered, employers looked at what they were contributing to their employee's retirement packages, and if they were still worth anything.

"As in many other industries, construction business retirement plans will feel the impact of COVID-19," Tufts notes. "Due to the economic slowdown, both discretionary matching and employee contributions may decrease for many. Firms facing substantial layoffs may encounter partial plan termination considerations. Laying off more than 20% of plan participants can result in vesting all participants at 100%."

"I believe it would be reasonable to see a reduction, if not an elimination, of company contributions to retirement plans for 2020 in anticipation of reduced cash flow caused by the shutdown," Ceschini adds.

While some companies may opt to cut or defund their retirement plans completely, others are seeing what resources are available to keep retirement plans in place. "After several years of improving funding statuses of defined benefit plans (pensions), we may see a steep decrease in value and possibly result in financial improvement plans and surcharges that will cost participating employers more in the future," Pass says.

CYBERSECURITY TRAINING: DO IT AGAIN, AND AGAIN

Cybercriminals never miss an opportunity to come up with a new way to take advantage of current events, and COVID-19 is proving to be a lucrative one. Scammers have perfected ways to make an email look like a Center for Disease Control alert, complete with phony links to cases in your area, or offer up links to health expert advice—all uniquely formulated to download malware on your devices. With more office staff working remotely, companies need to keep their employees apprised and their devices protected from these malicious scams.

"The surge in teleworking, including VPN and remote access, only increases the risk to organizations," Leone says. "There are malicious cyber-related scams including, but not limited to, phishing, data breaches, malware distribution, cyber intrusions and attempts to exploit teleworking. Cybercriminals are constantly adjusting their tactics and attempting to take advantage. Businesses need to be cognizant of this and maintain appropriate IT controls in order to mitigate external attacks.

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> Co-Leader at Citrin Cooperman

Organizations also need to educate their employees to limit the vulnerability of the business for a potential data breach. The appropriate security measures need to be taken to ensure external cyber risk is minimized. Companies should consider use of an 'IT stress test' to determine potential areas of exposure to these cyber attempts, and in turn, act to correct controls related to any identified areas of weakness."

John Jamison, technology risk services partner at Calvetti Ferguson, has much to say about the positive impact of ongoing, consistent training and check-ins. "First, ensure that security is part of the culture and DNA of your organization and that your end users receive frequent training and reminders on how to apply scrutiny and due care in their daily computing habits. An annual security training program is not sufficient to keep these items fresh

FASB CAUSED INTROSPECTION

To replace industry-specific revenue recognition with one all-encompassing standard, the Financial Accounting Standards Board (FASB) introduced changes regarding Accounting Standards Codification (ASC) Topic 606 that went into effect Jan. 1, 2019. CPAs across the country spent time educating their clients to make sure transitions went smoothly. One big benefit that most construction companies saw was an opportunity to review their contract practices.

"The adoption of the new revenue recognition standards have caused our clients to analyze the timing of their deliverables as well as the likelihood of recognizing variable consideration such as unapproved change orders and other potential incentives/penalties. They have improved on their monitoring and control efforts in order to be compliant with the new standards. Their financial statements have expanded disclosures that enable users to better understand the nature, amount, timing and uncertainty, if any, of revenues and cash flows arising from their contracts with customers," Leone says.

Ceschini agrees: "The new principles-based method of accounting includes a complex approach to recognizing revenue that requires significantly increased judgment and input from management. This standard has had a significant impact in the way revenue is recognized and has caused companies to change their contract language, business practices, policies and procedures, and internal controls."

Tufts also notes the increased collaboration between teams as a result of the changes. "The FASB revenue recognition changes have resulted in more collaboration between the accounting and project management teams, the development of internal policies and procedures, and additional documentation requirements," he says. "There has been a minimal effect on the financial results for our clients; however, additional disclosures in their financial statements are required to adhere to the standard."

in the minds of your employees, instead, you may consider providing end-user training more frequently throughout the year in short, digestible formats. Implementing periodic testing of your 'human layer' is critical to ensure that the security training you are providing is getting through and being put into practice in your employees' daily lives.

"Periodic phishing simulations or other social engineering examinations are a few methods that you can use to determine whether your end users are properly applying the lessons they have learned. Finally, if upper management does not take security seriously, neither will the employees. Company leadership must embrace security initiatives and model appropriate behaviors for the team," he advises.

Lenz adds: "As many tasks are now handled in a remote fashion, aside from having active IT controls that address both new and ongoing cybersecurity threats, we strongly encourage continued education of their staff. It is important for all company employees to be able to identify the various methods of cyber attack and remain steadfast in handling them properly. Even one successful phishing attempt can be detrimental to a company's business and financials."

AN UNCERTAIN FUTURE

"The pandemic has created a lot of fire drills," Bohman says. "At this point, the fires have been controlled so that contractors can start to look forward at least slightly. Questions are no longer about today and this week, but instead, what will things look like in six months to a year?"

Without a crystal ball, there's no way to estimate the long term impact, but as Leone notes, "By following the lessons learned during the 2008 financial crisis, parties in the construction process should be able to survive to fight another day. Getting ahead of the curve to manage, preserve and defend against claims will be vital to protect the financial integrity of construction owners, lenders, contractors, subcontractors and suppliers."

As Muhammad Ali once said: "It isn't the mountains ahead to climb that wear you out; it's the pebble in your shoe." Having an accounting firm on your team that is well-versed in the complicated machinations of construction accounting allows you to concentrate on the mountains during challenging times.

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KEY: [1]**Number of states** and U.S. territories where the firm is licensed to practice accounting, including Washington, D.C., Puerto Rico, American Samoa, Guam, Northern Marianas Islands, U.S. Virgin Islands. [2]**Percentage of overall firm revenues** that its construction practice represents. [3]**Areas of practice are abbreviated**: Audit, Accounting and Assurance (**A**), Bookkeeping (**B**), Business Planning (**BP**), Credit Assistance (**CA**), Employee Benefit Plans (**EB**), Family Office (**FO**), Forensic Accounting (**FA**), Fraud Investigations (**FI**), Litigation Support / Expert Testimony (**LS**), Mergers & Acquisitions (**MA**), Risk Management (**RM**) Succession Planning (**SU**), Surety Bonding Credit Assistance (**SB**), Tax Preparation (**T**), Valuation Services (**V**), Wealth Management (**WM**). Not provided (**-**).


Respond.
Recover.
Revitalize.
Let Wipfli help you navigate the uncertainty of COVID-19 and its impact on your people, finances and business.
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Audit and accounting
Cost segregation studies
Qualified opportunity zones
Litigation support
Technology consulting
Labor and skill-gap services
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THE TOP 50 CONSTRUCTION ACCOUNTING FIRMS

Rank	Firm	Year Founded	# States and Territories Admitted to Practice[1]	# Office Locations	# Firm CPAs	# Firm Employees	# Construction CPAs	# Construction Partners	Total # of Employees with CCIFP Certification	Total # of Construction Clients in 2019	Construction Practice as % of Total Firm Revenues[2]	Areas of Practice[3]
1	**CLA (CliftonLarsonAllen)**	1953	56	130	2,691	6,035	248	90	45	9,182	7.91%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
2	**Crowe LLP** Chicago, IL	1942	56	36	1,766	4,317	113	27	10	785	4.79%	A, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
3	**Marcum LLP** New York, NY	1951	52	31	720	2,020	154	35	5	2,156	6.67%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
4	**Wipfli LLP** Milwaukee, WI	1930	56	48	804	2,650	62	33	6	2,500	10%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
5	**Moss Adams** Seattle, WA	1913	54	34	1,284	3,072	131	52	17	1,412	4.56%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
6	**BKD, LLP** Springfield, MO	1923	56	40	1,270	2,900	250	17	11	1,100	3.66%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
7	**Baker Tilly** Chicago, IL	1931	41	57	1,249	3,367	136	21	2	2,938	3.58%	A, B, BP, EB, FO, FA, FI, LS, MA, RM, SU, T, V, WM
8	**Plante Moran** Southfield, MI	1924	52	21	1,508	3,169	300	34	6	1,085	3.62%	A, B, BP, EB, FO, FA, FI, LS, MA, RM, SU, T, V, WM
9	**Eide Bailly, LLP** Fargo, ND	1917	56	42	1,031	2,500	152	50	3	1,900	4.03%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
10	**CBIZ & MHM** Cleveland, OH	1954	53	91	983	3,959	80	19	13	1,600	2.34%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V
11	**Grassi** New York, NY	1980	11	5	169	325	33	11	12	344	32.54%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V
12	**RSM** Chicago, IL	1926	1	87	4,400	10,882	(-)	103	8	3,589	2.56%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, T, V, WM
13	**Carr, Riggs & Ingram, LLC** Enterprise, AL	1997	26	67	820	1,992	95	38	2	1,250	4.18%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
14	**Withum** Princeton, NJ	1974	25	13	476	1,094	40	16	5	550	5.86%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
15	**Aldrich CPAs + Advisors LLP** Salem, OR	1973	53	8	139	318	39	8	11	650	21.85%	A, B, BP, EB, FO, FA, FI, LS, MA, RM, SU, T, V, WM
16	**Anchin, Block & Anchin LLP** New York, NY	1923	8	1	152	390	33	12	0	500	12.73%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
17	**DHG** Charlotte, NC	1959	56	32	885	2,304	36	19	3	842	2.83%	A, B, EB, FO, FA, FI, LS, MA, RM, SU, T, V, WM
18	**Somerset CPAs** Indianapolis, IN	1960	56	3	98	204	55	17	1	680	27.12%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
19	**Berntson Porter & Company, PLLC** Bellevue, WA	1985	4	1	54	108	41	7	5	1,704	46.18%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
20	**BerganKDV** St. Cloud, MN	1945	14	9	155	451	42	7	3	1,100	15.36%	A, B, BP, EB, FA, FI, LS, MA, RM, SU, T, V, WM
21	**Warren Averett, LLC** Birmingham, AL	1972	22	14	340	800	50	31	3	444	5.78%	A, B, BP, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
22	**Citrin Cooperman** New York, NY	1979	15	14	499	827	19	8	3	544	3.68%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
23	**Sax LLP** Clifton, NJ	1956	3	4	81	191	32	8	2	175	18.67%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
24	**Schneider Downs & Co., Inc.** Pittsburgh, PA	1956	26	3	159	488	58	14	2	123	8.05%	A, B, BP, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
25	**The Bonadio Group** Pittsford, NY	1978	22	10	294	697	46	25	8	672	7.02%	A, B, BP, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM

SEE KEY ON PAGE 44

THE TOP 50 CONSTRUCTION ACCOUNTING FIRMS

Rank	Firm	Year Founded	# States and Territories Admitted to Practice[1]	# Office Locations	# Firm CPAs	# Firm Employees	# Construction CPAs	# Construction Partners	Total # of Employees with CCIFP Certification	Total # of Construction Clients in 2019	Construction Practice as % of Total Firm Revenues[2]	Areas of Practice[3]
26	**Hertzbach & Company, P.A.** Owings Mills, MD	1948	23	2	86	165	40	6	5	450	24.14%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
27	**HBK CPAs & Consultants** Canfield, OH	1949	5	17	195	433	65	6	5	641	7.07%	A, B, BP, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
28	**Rea & Associates** New Philadelphia, OH	1938	2	12	137	320	20	4	0	1,335	13.24%	A, B, BP, EB, FO, LS, RM, SU, T, V
29	**HORNE LLP** Ridgeland, MS	1962	19	23	144	690	17	2	1	292	6.95%	A, B, BP, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
30	**Castellano Korenberg & Co., CPAs** Hicksville, NY	1991	2	1	24	37	4	3	0	250	69.23%	A, BP, CA, EB, FI, LS, MA, RM, SU, SB, T, V, WM
31	**Redpath and Company** Saint Paul, MN	1971	8	2	94	180	18	3	4	1,471	21.07%	A, B, BP, CA, EB, FO, FI, LS, MA, RM, SU, SB, T, V
32	**Rehmann** Troy, MI	1941	4	18	328	869	21	9	1	380	3.97%	A, B, EB, FO, FA, FI, LS, MA, RM, SU, T, V, WM
33	**Harding Shymanski & Company** Evansville, IN	1975	22	2	65	134	34	8	2	447	21.21%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
34	**BFBA, LLP** Sacramento, CA	1983	6	1	42	75	34	8	0	225	41.22%	A, B, BP, EB, FI, LS, MA, SU, SB, T
35	**Aronson, LLC** Rockville, MD	1962	16	1	131	266	12	3	2	200	8.89%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V
36	**Weaver** Houston, TX	1950	4	12	313	741	36	15	2	0	3.34%	A, BP, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
37	**Hannis T. Bourgeois, LLP** Baton Rouge, LA	1924	5	3	63	128	27	17	3	329	25.53%	A, B, BP, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V
38	**Sikich LLP** Chicago, IL	1982	52	14	249	1,000	58	28	4	236	2.54%	A, B, BP, EB, FA, FI, LS, MA, RM, SU, T, V, WM
39	**McCarthy & Company, PC** Lafayette Hill, PA	1967	4	2	14	30	12	5	2	150	70%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
40	**Brown Edwards** Roanoke, VA	1967	13	11	186	388	42	9	11	164	7.4%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
41	**Kreischer Miller** Horsham, PA	1975	36	1	108	219	25	7	4	140	11.24%	A, B, BP, CA, EB, FI, LS, MA, RM, SU, SB, T, V
42	**RidoutBarrett&Co., P.C.** San Antonio, TX	1986	2	2	26	49	12	4	1	734	60%	A, B, BP, EB, FO, FA, FI, LS, RM, SU, T, V
43	**Gelman LLP** Santa Ana, CA	1983	3	1	14	23	13	5	3	380	75.68%	A, B, BP, EB, FO, FA, FI, LS, MA, RM, SU, SB, T
44	**Moore Colson CPAs and Advisors** Atlanta, GA	1981	27	1	82	152	26	6	1	85	10.2%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V
45	**Katz, Sapper & Miller** Indianapolis, IN	1942	56	4	211	337	15	5	6	230	4.51%	A, B, BP, CA, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
46	**BerryDunn** Portland, ME	1974	46	7	90	401	22	11	4	87	4.42%	A, BP, EB, FO, FA, FI, LS, MA, RM, SU, T, V, WM
47	**Melton & Melton LLP** Houston, TX	1965	2	1	54	117	25	10	1	239	15.31%	A, B, EB, T
48	**MCM CPAs & Advisors LLP** Louisville, KY	1980	11	6	168	343	25	5	0	480	5.12%	A, B, BP, EB, FO, FA, FI, LS, MA, RM, SU, SB, T, V, WM
49	**LaPorte CPAs & Business Advisors** Metairie, LA	1946	6	5	89	191	27	6	5	272	9.82%	A, B, EB, FA, FI, LS, MA, RM, SU, SB, T, V
50	**Bennett Thrasher LLP** Atlanta, GA	1980	8	1	135	314	21	2	0	68	4.88%	A, B, EB, FO, FA, FI, LS, MA, RM, T, V, WM

SEE KEY ON PAGE 44

EXECUTIVE **INSIGHTS**

What advice do you have for firms to protect their businesses and financial systems from phishing, data breaches and cyber intrusions?

As attackers become more sophisticated, you need to be as proactive as possible, recognize your vulnerabilities and implement the tools, processes and procedures necessary to reduce risk over time.

JIM CARPP
CHIEF DIGITAL OFFICER
Rehmann

Whether it's securing the devices or specific apps employees use, keeping your data safe at every point of access is key.

MIKE ODE
CHIEF EXECUTIVE OFFICER
Payroll4Construction.com

Have an IT policy and recovery plan in place. Proactive planning is far less expensive than the costs and downtime incurred in the event of a cyber incident.

ELAINE ERVIN
PARTNER, CONSTRUCTION NATIONAL PRACTICE LEADER
Moss Adams LLP

We recommend utilizing a variety of cybersecurity tools at distinct levels of your firm's operations—the most critical being the education of your employees.

RHETT ENNIS
PRINCIPAL, CONSTRUCTION PRACTICE LEADER
Berntson Porter & Company

What advice do you have for firms to protect their businesses and financial systems from phishing, data breaches and cyber intrusions?

During COVID-19 and the new norm of business, construction companies need to evaluate their current cybersecurity measures to further protect against attacks and breaches.

LOUIS SANDOR III
PARTNER, CPA, CCIFP
WithumSmith+Brown

How important is it for general contractors to reassess the financial health of their subcontractors in the current economy?

A best practice for general contractors is to always maintain open lines of communication with their subcontractors.

LARRY MAY
PARTNER
Carr, Riggs & Ingram, LLC

The financial strength of a project's subcontractors directly impacts the ability of the general contractor to provide a quality project that is on time and within budget.

MICHAEL CESCHINI
MANAGING MEMBER
Ceschini CPAs

It is crucial that estimators and project managers ensure solicited subcontractors are currently prequalified and approved by management prior to bidding or contract award.

LINDA ROBERTS
PRINCIPAL
BerryDunn

What unique challenges do construction firms operating across borders face, and what capabilities should they employ to address them?

Your program management solution should be able to handle different accounting standards [...] even as it supports your day-to-day project management activities.

JEFF WEISS
CHIEF REVENUE OFFICER
CMiC

What are best practices you recommend for contractors in managing their projects in the current environment?

Reassess the costs to complete your projects, focusing on new requirements around jobsite safety protocols.

JULIAN XAVIER
INCOMING, CLA CONSTRUCTION
MANAGING PRINCIPAL
CliftonLarsonAllen LLP

As construction firms acclimate to a different way of working, what steps should they be taking to ensure prompt payment?

Communication is key to ensuring prompt payment. Due to COVID-19, many office staff are working from home, including accounts payable personnel.

KEVIN BOOTH
CHAIRMAN
CFMA

What trends have you seen construction firms using in order to achieve prompt payment?

Construction firms must bill projects before they can be paid, so a rigorous and timely billing process on all projects in progress is essential, no exceptions.

JON ZEILER
MANAGING PARTNER, CONSTRUCTION AND REAL ESTATE SERVICES
Crowe LLP

What are some common financial "bad habits" construction firms can easily avoid with some guidance?

Business is a numbers game, and owners need to love their numbers so intimately that even the slightest changes don't go unnoticed.

FRED ODE
CHIEF EXECUTIVE OFFICER & FOUNDER
Foundation Software

To quote Benjamin Franklin: "Beware of little expenses; a small leak will sink a great ship."

CHINGIS AKATAYEV
CHIEF EXECUTIVE OFFICER
ComCard, Inc.

Many construction companies judge the performance of their projects and businesses based on their intuition and not on data.

JOHN ROSCH
REGIONAL SALES MANAGER
Explorer Software

What best practices do you recommend to help construction firms weather an economic downturn?

Weathering the downturn depends on the construction firm's knowledge of their costs, the proactive steps they take to manage them and their ability to price future work accordingly.

STEVE TENNEY
CONSTRUCTION INDUSTRY CONSULTANT
BerganKDV

EXECUTIVE **INSIGHTS**

What best practices do you recommend to help construction firms weather an economic downturn?

Contractors should always prioritize cash, but it is especially important when markets take a turn. Your business needs to be prepared for anything.

CRAIG S. PATE
CPA, PARTNER
Wilson Lewis

Cash flow should be on the top of every contractor's mind during an economic downturn.

CARL OLIVERI
CONSTRUCTION PRACTICE LEADER
Grassi

The fundamentals of good business practices are always highlighted in an economic downturn, including monitoring cash flow, accounts receivable and margin.

TIMOTHY T. WILSON
NATIONAL INDUSTRY PARTNER
BKD CPAs & Advisors

Continually projecting cash flow for six to eight week periods while managing the operating budget and adding cash to reserves are efficient cash management strategies.

TIM CUMMINS
PARTNER
Aronson LLC

A good rule of thumb is that you should be able to cover your fixed costs and overhead for a few months with your cash on hand.

PHILLIP ROSS
PARTNER
Anchin

Companies that are able to anticipate changes and to be agile in their adaptation to them will thrive. Change is not only coming, it is here now.

REED SELLERS
PARTNER
Wipfli

Best-in-class contractors excel at reinvention because they continually identify where future opportunities will be and redirect their current talent into those areas.

SHANE BROWN
PARTNER, CONSTRUCTION PRACTICE LEADER – ROCKY MOUNTAIN REGION
Plante Moran

Be vigilant about reviewing financial statements to get a real-time picture of your cash flow. Examine job cost reports, and make timely adjustments to rein in costs.

JOSEPH NATARELLI
NATIONAL CONSTRUCTION INDUSTRY GROUP LEADER
Marcum LLP

Read all the insights these executives have to share at ConstructionExec.com/ExecutiveInsights

THE TOP 50 CONSTRUCTION ACCOUNTING FIRMS

CORPORATE PROFILE:

LEADERS IN CONSTRUCTION ACCOUNTING

CRI CARR RIGGS & INGRAM CPAs and Advisors

Contractors Should Take Steps to Prepare for the Post-Pandemic World

These are uncertain times, to be sure, for the construction industry. While the initial impacts of COVID-19 were perhaps not immediately felt by contractors in some sectors, the outlook is somewhat murkier beyond third quarter 2020.

In a matter of weeks, the United States went from a booming economy with record low unemployment to a virtual standstill. That's why contractors need to take steps now, not later, to prepare.

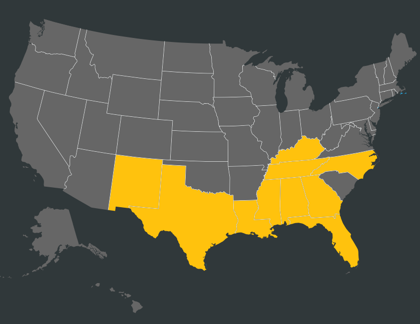
"Cash flow is always a significant gauge of success for any business, but that is particularly true during times of crisis," says Larry May, a partner with Carr, Riggs & Ingram CPAs and Advisors (CRI). He says contractors should now be taking a hard look at cash flow management, as well as streamlining their operations to prepare for a worst-case scenario.

"At the beginning of the 2008 financial crisis, many of our contractor clients were doing well," May adds, "but they eventually burned through their backlogs." Similarly, today's COVID-19 threat could lead to a tidal wave of project delays and cancellations later this year.

Fortunately, there are a few things a contractor can do to prepare. For one, they should proactively review all upcoming work and check their contract cancellation clauses to get a more realistic expectation of future work. It's all about confirming with customers that they plan to move forward with projects according to the original timeline. "Find out if there is verbiage in the contract that will allow a project to be canceled," May says. "More importantly—make sure that you're going to get paid if you perform the work."

> *Cash flow is always a significant gauge of success for any business, but that is particularly true during times of crisis.*
>
> **– Larry May, Partner**
> Carr, Riggs & Ingram CPAs and Advisors

LOCATIONS



SERVICES

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- Tax Consulting
- IT Audits & Technology
- Valuation & Litigation Support
- Business Transition

In the process, a contractor should evaluate a client's financial position by pulling a credit report or gathering other financial data, and even verify that their construction loan actually exists. "You want to keep your ear to the ground and do any investigative work that you can," May says.

After getting some much-needed clarity about future work, a contractor should then take steps to cancel any future commitments of their own when necessary, including purchase orders, subcontractor arrangements, etc.

They should also weed out any inefficiencies or waste in their operations. It's not usually hard to find—during boom years, most businesses become freer and less cautious with their money. Ranking employees is usually a good first step. "If projects are canceled, and there is a 10%, 20% or 30% reduction in business, you need to have already identified your first and second rounds of layoffs," May says.

A contractor should also unload any idle equipment and take a hard look at their current debt load. "Refinance debt when it makes sense, and extend that out to improve cash flow," he adds. "Ultimately, you should prepare for the worst and hope for the best. You want to be alive when you come out of this. You want to be one of the survivors."

KEEP IN TOUCH

Through it all, contractors should communicate closely with their CPA. Carr, Riggs & Ingram is in the business of helping contractors of all sizes. The firm's CPAs and advisors provide a broad range of accounting, auditing and tax services, as well as wealth management, business succession, cybersecurity and data analytics.

"We can help a contractor maximize their bonding capacity, which is particularly important right now," May says. "That's based upon their financial statements and working capital. In bad times, surety companies get nervous, and a contractor's bonding capacity can be significantly impacted."

Therefore, it's helpful to have a team of professionals to offer guidance and support when evaluating choices and assisting with difficult issues.

"
Ultimately, you should prepare for the worst and hope for the best.

ABOUT US

Carr, Riggs & Ingram CPAs and Advisors (CRI) is a top 25, nationally ranked accounting and advisory firm offering tax, audit and business consulting services.

COMPANY CONTACT

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THE TOP 50 CONSTRUCTION ACCOUNTING FIRMS

CORPORATE PROFILE:

LEADERS IN CONSTRUCTION ACCOUNTING

GRASSI
ADVISORS & ACCOUNTANTS

Don't Just Survive 2020: Strategies to Thrive in 2021

If 2020 is the year of unprecedented challenges for the construction industry, 2021 will be the year of unprecedented opportunities to overcome them. While many factors will influence this recovery, a few will stand out as especially critical to your company's growth and success next year.

CARL OLIVERI
CPA, CCIFP, CFE, MBA
Construction Practice Leader, Grassi

CASH FLOW

Cash is always a concern for contractors, but recent events have heightened the focus on cash flow issues as the costs of remobilizing projects, staggering shifts, investing in health protocols and the inevitable impact on insurance costs begin to hit the contractor's bottom line. Employing construction-centric financial models will be more important than ever to enhance decision-making and adapt to evolving cash flow scenarios.

LABOR ISSUES

As a result of COVID-19, the industry's labor shortage is compounded by workers' fears of returning to the jobsite. As we anticipate a potential second wave of the virus, greater investment in health and safety protocols will better position companies to staff and advance projects.

RETIREMENT PLANNING

The distressed economy caused by the pandemic has created an immediate opportunity for contractors to reassess estate and succession plans. While lower corporate valuations yield significant estate planning opportunities, owners looking to sell will be faced with tough decisions.

CYBERSECURITY

The rapid rate at which contractors adopted remote work and other technologies in response to COVID-19 will make the industry ripe for cyberattacks. Cybersecurity training, awareness and technologies will be a higher priority than ever—both in the office and at the jobsite.

COMPANY HIGHLIGHTS

- Celebrating 40 years of service to the construction industry
- Serving 350 construction companies with projects across the nation and overseas
- More than half of Grassi's construction partners are CCIFP certified

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- Mechanical Contractors
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Contractors as Bankers: The Good, the Bad and the Ugly

BY NITIN GULATI

Big-budget construction projects require general contractors that are capable of handling large-scale work with not only an effective project management team, but also a strong financial foundation.

That financial footing is required because general contractors often bankroll a project until there is a positive cash flow. This cash flow helps keep the construction ongoing and the contractual requirements fulfilled.

As projects get underway, however, problems can arise. Issuances of bulletins, unforeseen field conditions and scope changes are some of the key factors that might affect a contractor's budget in one straight shot. In other words, they are some of the factors that take the project from good to bad—and even ugly.

The "Good"

The ability to support a project financially is considered a benefit to the client and a "positive" to the contractor. It's one of the critical service factors on which reputations in the industry are built.

This scenario is typical. Early on in a project, the general contractor has strong leverage in the game, perhaps because all the responsibility lies upon the contractor's company and its subcontractors' shoulders. From this position in the beginning of a working relationship, payment processes typically go smoothly among all parties. Given this show of accountability by all, the general contractor can assume that things will run smoothly for the long haul and duration of the project.

The "Bad"

Too often, the good period lasts only until this financial strength of the general contractor is tested. At some point along the way, client payments begin to slow, dragging well behind agreed-upon schedules written into the contract. Change orders roll in, but payments for doing the work don't keep pace.

The bad period begins to take shape, and financing a project is no longer an act of pride but one of necessity. After all, subcontractors and vendors still must be paid. So, they continue to be paid as scheduled, but the general contractor starts to take on a financial burden of the ongoing project.

Worse is in cases where late client payments are made but fall short of the amount billed, with unexpected deductions. The contractor takes on the burden


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of the late payment. This occurrence qualifies as a "bad" ritual. It signals that leverage on the project has begun to shift in the client's favor. Projects and relationships can get particularly difficult at this time, and these are all warning signs that should make a contractor cautious about adding more work into the contract—work that would lead to an increase in both responsibility and liability.

A contractor might be taken for granted by the client, which has likely assessed the strong financial footing of the contractor. Work pertaining to change orders and field bulletins may be added into the scope, and expectations are still high that construction will move quickly and that payments will be made to the contractor in a timely manner. This is the best time for the contractor to take all possible proactive measures to legally protect its rights.

The "Ugly"

The situation can now easily progress from "bad" to "ugly." The entire project is put at risk because of an over-reliance on the contractor's financial resources. In this example scenario, payments stop completely. The words "liquidated damages" begin to appear in correspondence about the payment that fell short. The general contractor has little to no leverage because it is too late in the timeline of the project, and most of the work on the project has been completed. All change-orders have been completed, but payment on them has not been processed. Subcontractors and vendors continue to bill and drain the contractor's reserves.

This phase can be attributed to multiple factors such as:

- a transition in the project-management team on the client's side;
- a lack of project funding;
- a change in the client's project priorities;
- decisions made by client's new team players who lack

knowledge pertaining to the history of a project;
- the client's biased opinions and manipulation of the contract; and
- a lack of transparency between the client and the general contractor.

At this point, the client is in complete control of the project by holding the contractor's expenses, and the general contractor has little recourse. If it's a private project, the contractor might file a mechanics lien against the property if expenses go unpaid; if it's a public project, a contractor might file a claim against the payment bond. The general contractor's reputation is tarnished, nonetheless.

What Can Be Done?

So how does a general contractor—one whose goal isn't looking to finance a construction project from start to finish—keep the cash flow in check? How does a general contractor avoid going from good to bad and ugly? In a couple of words: risk management.

Risk management is especially important when rush projects come out for bidding. Such projects typically lack vision for the end product and, in these cases, a contractor inherits change-order work that, while lucrative, can also turn "ugly" if the situation is not handled well by an effective project-management team.

There is no rule of thumb on how to overcome these challenges. Every project is unique; each has its own contractual terms and conditions. However, being proactive at every phase can significantly help reduce risks at the contractor's end.

All projects go through different challenges but what is critical here is to avoid a project turning ugly. It happens, but it can be mitigated, if not completely avoided, using the following guidelines:

- Gather and define detailed project-scope requirements prior to bidding and ask as

many questions as possible at the time of bidding. Do not assume anything.

- Understand and identify the site conditions, as well as the main project drivers.
- Familiarize yourself with the contract in detail, including general conditions. Hire an outside consultant, if needed.
- Document each and every piece of correspondence, even if it is an informal discussion.
- Know each project's specific schedules, particularly for filing any paperwork such as claims and/or lawsuits, or for notifying the client of unforeseen field conditions.
- Make sure compensation for change orders includes the time involved to finish change-order work, rather than just labor and materials.

What starts as a sound working relationship between a general contractor and a client can easily turn sour when there is an over-reliance on the contractor to fund the project. The trick lies in knowing when the tables start to turn and the leverage in the professional relationship starts to shift. At that point, best practices need to be carefully followed in order to save the project and the general contractor's reputation. CE

Nitin Gulati, a lead construction project manager, holds a master's degree in construction engineering and project management from the University of Texas at Austin and a Master of Science in structural engineering from Michigan State University. For more information, email littlengine@utexas.edu.

Accounting and Financial Statement Considerations in the Era of COVID-19

BY MARTIN C. MCCARTHY

The full magnitude of disruption from the pandemic is yet to be seen, and contractors will feel the impact for years to come. While the COVID-19 situation remains fluid, contractors need to be aware of how it could impact their accounting methods and financial statements.

Contractors should use their best judgment on accurately reporting information and taking advantage of deadline extensions. Consider the following Generally Accepted Accounting Principles (GAAP) requirements and disclosures.

Asset Impairments
Intangibles–Goodwill and Other (ASC Topic 350) requires businesses to perform an impairment test of goodwill and indefinite-lived intangibles at least once per year or when an event occurs. Contractors should evaluate whether COVID-19 triggers the need for an interim impairment test.

Contract Modifications
Changes in economic activity caused by the pandemic may require contractors to renegotiate the terms of existing contracts and arrangements. Examples include contracts with customers, compensation arrangements with employees, subcontractors, leases, as well as the terms of financial assets and liabilities.

Debt Modifications and Loan Covenants
Under Debt (ASC Topic 470), contractors may need to amend the terms of existing debt agreements to gain access to additional liquidity. It should be determined whether the amendments represent a debt modification, debt extinguishment or a troubled debt restructuring.

Going Concerns
Presentation of Financial Statements–Going Concern (ASC Subtopic 205-40) requires management to determine if a contractor can continue as a going concern within one year after the date the financial statements are issued. This evaluation is based on events that are known at the time the financial statements are issued. Contractors must disclose the effects of COVID-19, including financial projections, their ability to meet debt covenants, the impact of key financial ratios and other relevant information on their going concern evaluations prior to issuance.

Contractors may need to reassess financial projections and other relevant information used in their going concern evaluation for the effects of the pandemic. Adverse factors such as reduced product demand, closures and the ability to meet key performance indicators should be considered.

Hedge Accounting
Derivatives and Hedging (Under ASC Topic 815) requires that contractors asses the probability of hedge accounting and a hedged forecasted transaction occurring due to COVID-19. If a hedged forecasted transaction will not happen, hedge accounting may not be applied, and future changes in the fair value of the derivative should be recognized in earnings.

Inventory
Inventory (ASC Topic 330) requires a portion of fixed overhead to be expensed, rather than capitalized into inventory, when production levels are below normal. Fixed overhead costs are typically capitalized into the cost of inventory on a per-unit basis,

based on normal capacity and production levels.

Changes to supply chains, workforce availability and consumer demand may result in decreases to the net realizable value of inventories. Contractors should assess whether the carrying value of their inventory needs to be adjusted and disclosed.

Property, Plant and Equipment
Property, Plant and Equipment (ASC Topic 360) requires that older assets be tested for recoverability whenever events or changes in circumstances indicate the carrying amount may not be recoverable. COVID-19 may change the planned use of an asset that must be disclosed.

Revenue Recognition
COVID-19 will impact current and future contracts. Revenue From Contracts With Customers (ASC Topic 606) requires that revenue is recognized when it is likely that the contractor will be paid. Contractors will need to assess whether the customer is able to pay or if write-offs are necessary. The effective date of this ASU has been pushed back to annual reporting periods beginning after Dec. 15, 2019, and interim reporting periods within annual reporting periods beginning after Dec. 15, 2020.

Variable considerations should be evaluated and disclosed on volume discounts, returns, rebates and refunds. Variable considerations are required to be estimated at contract inception and reassessed at each reporting date. They can be included in the transaction price if a significant revenue reversal will not occur.

Risks and Uncertainties
Risks and Uncertainties (ASC Topic 275) requires entities to disclose information about risks and uncertainties that could significantly change the amounts reported in the financial statements.

COVID-19 may impact a variety of significant accounting estimates related to volume discounts, variable considerations or rebates in revenue contracts; financial projections for asset impairment evaluations; or market data and other inputs used to value investments.

Contractors are required to disclose risks that exist at the date of the financial statements, as well as if the entity will become vulnerable in the near-term as a result. Disclose what happened and how COVID-19 has impacted current and future operations.

Securities

Investments–Debt and Equity Securities (ASC Topic 320), Investments–Equity Securities (ASC Topic 321) and Investments–Equity Method and Joint Ventures (ASC Topic 323) mandate that significant investments in equity securities, debt securities and equity method investments, should each be disclosed because of declines in the capital markets as a result of COVID-19.

Stock Compensation

Compensation–Stock Compensation (ASC Topic 718) requires that stock compensation arrangements with performance conditions based on the achievement of future metrics may no longer be assessed as being probable due COVID-19. Contractors may need to consider modifying award targets.

Subsequent Events

Subsequent Events (ASC Topic 855) provides guidance on the principles and requirements for subsequent events. Contractors should consider the nature of the events that occurred related to COVID-19 before the issuance of the financial statements.

Subsequent events should be recognized on the financial statements. Additional information should be disclosed relating to what happened as of the balance sheet date. Events that did not exist at the balance sheet date should not be recognized. Contractors should disclose the nature of a non-recognized subsequent event and estimate its financial impact. A statement that an estimate cannot be made may be included if the absence of a disclosure would result in misleading financial statements.

The impact of COVID-19 on the business should be considered a non-recognized subsequent event in the calendar year-end 2019 financial statements. Disclose information on the impact of government-mandated restrictions, staff reductions, investment losses and other situations.

Tax Accounting Method Changes
As contractors evaluate their capital needs, they may also consider changing to a more advantageous method of accounting and reporting for income tax purposes. For example, an entity may change its method of capitalizing costs to inventory (IRC Section 263A) or the timing of certain deductions to a more favorable method. Changes from one tax method of accounting to another may be either automatic or non-automatic under tax authority regulations.

Tax on Foreign Earnings
Taxes (ASC Topic 740) requires contractors with operations in affected areas to reevaluate their assertion of their intent and ability to indefinitely reinvest foreign earnings.

The impact of COVID-19 on financial reporting will vary based on the risks that are taken and the circumstances. Balancing the timing of reporting against the reliability and integrity of already reported information is important. Providing a fair view and presentation of the performance and position of the company will require the comprehensive disclosure of forward-looking information and cash flow impacts. Contractors must maintain an environment of integrity and transparency based on ethical decision-making.

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Five Things Every Auditor Needs to Know About Taxes This Year

BY ROBERT N. NEVILL

It really does not seem to matter how long a CPA has been an auditor; everyone assumes that they do taxes. It is very likely that even their own mother will call each year around March and ask that infuriating question, "How is tax season going?"

Once an auditor has had that small vein pop out on their forehead for many (many, many) years, they should simply relax into the undeniable truth that every auditor needs a simple working knowledge of taxes to be able to have an elevator conversation on current tax issues. Their clients certainly are interested in taxes, and there is nothing worse than an auditor with a blank and unknowing stare.

Having this in mind, here are five things that every auditor should be able to discuss with construction clients for this coming tax year.

1: Buy That Equipment Before Year-End

This can be a tricky recommendation for an auditor to make. Everyone thinks that by purchasing equipment before year-end they are "saving" taxes, which is not completely true. The truth is that they are "accelerating" the deduction, rather than generating additional deductions. Auditors need to think in terms of how the income statement would look with a 100% deprecation in the current year rather than streamlining with straight-line.

The effect is that while a person won't pay taxes on those amounts this year, they will not have any deductions for that equipment next year. The only true savings come from the time value of money.

Just to be as confusing as possible, there are actually two types of accelerated depreciation. Clients generally have two ways to take an immediate writeoff either for a portion or all of the cost of an acquired capitalized asset. They can claim a tax deduction for a percentage of the cost of the asset (bonus depreciation), or they can claim a deduction for a certain dollar amount of the cost of the asset (Section 179).

1. Bonus Depreciation: This is a tax incentive that allows businesses to take a first year-deduction on purchases of qualified business property in addition to other depreciation. Under the Tax Cuts and Jobs Act, bonus depreciation has been increased to 100% (up from 50%) for purchases made between September 27, 2017, and January 1, 2023. Bonus deprecation also now applies to both new and used machinery and equipment (previously it only applied to new items).
2. Section 179: This is also a tax incentive for businesses that purchase and use qualified business property. If equipment purchases are under $2,500,000 the client can expense the entire amount. Section 179 is completely phased out once eligible purchases reach $3,500,000 and is limited to $25,000 for SUVs and trucks greater than 6,000 pounds gross vehicle weight. In addition, qualified improvement property and certain structural components that are not eligible for bonus deprecation can be eligible for special expensing rules under Section 179.

2: New Tax Rate and Simplification of Taxes for C-Corporations

Much to the irritation of the tax department, auditors have routinely put forward that taxes do not make sense, they do not have an underlying logic and they are simply a socio-economic venue to motivate behavior. A point of confusion is not only the sliding scale of taxes, but the oddity of Alternative Minimum Tax. From an auditor's perspective, this complicated addition to the tax code reads like a check-and-balance on that sliding scale, enabling taxes to be recalculated based on an alternative minimum amount.

The elimination of AMT and a new 21% flat-tax rate for C-corporations was a welcome and long-awaited change. The direct impact to the contractor is additional cash flow; the direct impact to the auditor is a simplification of overcomplicated tax planning; the indirect impact to the auditor is, naturally, new questions regarding converting to a C corporation.

3: R&D Credit

The U.S. Research and Development tax credit is a government-sponsored tax incentive that rewards companies for conducting R&D in the United States, and it is much more expansive than many businesses might think.

Any company that develops or enhances new or existing products or processes will most likely qualify for some portion of the R&D tax credit. The credit was implemented to incentivize innovation throughout the economy and to keep technical jobs local, which is highly beneficial to the construction industry.

4: Net Operating Loss Rules

In an ideal world, there would be no loss to carry forward for any clients. Unfortunately, during this time, many clients will have significant losses. An the auditor needs to be aware of changes that have taken place, as well as when and how much of the losses can be used.

The CARES Act allows for NOLs arising in a taxable year beginning after Dec. 31, 2017, and before Jan. 1, 2021, to be carried back five years and continue to be eligible to be carried forward indefinitely. Corporate taxpayers will enjoy this, as carryback to a pre-2018 tax year will typically be more valuable due to recent tax rate changes. The CARES Act also retroactively suspends the 80% limitation on use of NOL carryforwards and allows for 100% use. This can get real complicated real fast. Auditors need to make sure and their clients are tracking NOLs based upon when they are incurred, when they hope to use them and what tax act they fall under.

5: Bonuses Need To Be Paid by When?

Right around year-end, auditors will start getting this question—and there is an easy answer to have in your pocket. Usually between Thanksgiving and Christmas, management starts thinking about bonuses, how much they can write off and how to trick their payroll system to give an actual $1,000 bonus check rather than a tax-adjusted check. The whole process generally takes some time and is seldom complete before the end of the year.

The IRS has set time limits on when bonuses must be paid in order for them to be deductible in any given fiscal year. Auditors should make sure they know what day that is. Non-owner bonuses must be paid within 75 days of year-end and owner bonuses ("owner" being defined for S-corporations as regardless of percent-owned and for a C-corporation as more than 50% ownership) must be paid by year-end to be deductible.

Lastly, note that this article avoids addressing the "tax-free" aspects regarding the forgiveness of a PPP loan; auditors should leave that theoretical discussion to their least favorite tax partner.

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Deconstructing the Income Statement

BY ROBERT MERCADO AND CHRISTOPHER SISK

Provided to company management, financial institutions, sureties and customers alike, financial statements are the main source of a contractor's historical performance. This historical data is used to analyze the contractor's business when determining lines of credit, loans and surety bonds—or even when deciding whether to allow a contractor to perform work.

Most interested parties will focus on the contractor's balance sheet without much regard for the income statement. Generally, they will home in on revenue, gross profit and net income.

However, a prudent examination of the income statement provides crucial fiscal information about the company's history and performance that must also be factored into evaluating its strength and stability.

The major components of an income statement are:

- Revenue Earned
- Cost of Revenue Earned
- Selling, General and Administrative Expense

Revenue Earned

Not all revenue earned is equal. Revenue can derive from contracts with different types of profit structures, such as lump sum, fixed price, unit price, cost-plus-a-fee, cost-plus-a-fee-with-a-guaranteed-maximum or time and materials. While these are all considered "revenue earned," each requires a distinct analysis to understand how a contractor is truly performing.

Most contractors calculate revenue utilizing the percentage of completion method, which is based on estimates. For all contracts in progress at the financial statement date, revenue is based on the actual cost incurred during the year, plus gross profit realized during the year.

The gross profit realized is determined using the estimated completion percentage of the project. This is determined by calculating the actual cost incurred as a percentage of the estimated total cost to complete the project. If a contractor's estimated costs are wrong, the reported revenue earned and gross profit will also be incorrect.

To understand the risk related to the accuracy of the financial statement, it must be made clear how much of the revenue is based on estimates. The more revenue based on estimates, the higher the chance of the revenue being over- or understated. The income statement should illustrate the cost of each type of revenue earned to demonstrate where the company's profit is truly originating.

Cost of Revenue Earned

Cost of revenue earned is calculated to determine a contractor's gross profit. This formula requires a concrete understanding of all factors included in the cost of revenues earned.

Revenues earned consists of both direct and indirect costs. The definition of a direct cost is any cost that can be directly associated with the project. Examples of direct costs include direct labor (labor on the jobsite), materials purchased specifically for the project, subcontractors, equipment to install on the project, etc.

Indirect costs are items not directly related to the performance of the work, such as warehouse labor, depreciation on equipment, insurance, equipment repairs, union or other benefits to labor associated with the work on a project, etc. Indirect costs are often overlooked as a true cost on a project. Worse, they often are not charged to a project but instead are included in the selling, general and administrative (SG&A) section of the income statement.

Indirect costs are required to be allocated to a project based on a systematic approach correlated to direct labor hours, equipment hours, or a combination of both. If indirect costs are included in SG&A, the contractor is overstating its actual gross profit as well as overstating SG&A. This will have a significant impact on the health and accuracy of the financial statements.

Indirect project costs can change over time. A contractor should, at least annually, analyze indirect costs and the methodology used to allocate those costs. This will determine if indirect costs are being accurately applied to contracts. If it is determined that indirect costs are being under- or over - applied, the frequency of analysis should be adjusted moving forward.

A contract bid should incorporate estimates of both direct and indirect costs. Incorrect estimates can have the unintended consequence of greater total project costs, resulting in lower gross profit, or even contracts finishing at a loss.

A characteristic sign of this is seen in recurring contract "fades." A contract fade results when a contractor reports a final gross profit lower than the estimated gross profit shown in previous reporting periods. Not knowing the true contract fulfillment cost can result in a short life span for a construction company.

Contract schedules should accompany any income statement provided by the contractor. Without the contract schedules, it's impossible to understand how each project impacts the statement. In order to calculate the contract gain or fade, the current contract schedules need to be compared to prior periods in order to see the progression of the projects and understand any positive or negative impact on the project gross profit.

Cost of revenues earned is typically considered a variable cost. Variable costs will increase or decrease based on the contracts and volume of work performed by the contractor. By definition, variable costs are separate from SG&A costs, which are fixed costs.

Selling, General and Administrative (SG&A)

SG&A costs are associated with running the "back office" operations of a company. These include office staff, payroll, sales and estimating, utilities, general insurance, office expenses, etc. SG&A costs are incurred regardless of whether the contractor has booked current or future work. For the most part, SG&A costs are fixed, meaning they don't increase or decrease with revenue.

The most profitable contractors stringently focus on keeping the SG&A costs at a minimum. The reason for this is simple. SG&A is the amount of overhead that a contractor needs to cover from the gross profit earned on projects. The lower the SG&A, the less gross profit is required to cover these costs.

For example, say a contractor normally earns 10% gross profit on its projects and has SG&A of $1,100,000 annually. In order to break even after covering the cost of revenues earned and SG&A, the contractor would have to earn $11,000,000 in revenue the following year ($1,100,000 SG&A divided by 10% gross profit). If the contractor normally generates $15 million per year, $1.1 million seems like a reasonable SG&A based on that volume. But what if the contractor normally has revenue in the $9 million range? This would mean either the revenue must be increased by successfully obtaining new work through bidding, bid prices need to be increased or the SG&A needs to be reduced.

A frequent ratio considered by the users of financial statements compares a contractor's backlog and related gross profit with its typical SG&A costs. Using the same average SG&A of $1,100,000 and 10% gross profit, assume a contractor has $16,500,000 of backlog. This ratio would mean the contractor has 18 months of work under contract to cover its SG&A costs ($1,650,000 of gross profit divided by $1,100,000 of annual SG&A costs = 1.5 years or 18 months).

The users of the contractor's financial statement are calculating these ratios and making decisions about the contractor's business. It is imperative that the contractor also understand these ratios to ensure the business is portrayed in the strongest possible light.

When a contractor can understand the importance and characteristics of the income statement and what it is telling the intended user, it can be a very powerful tool. Most contractors "know their numbers," but the actual understanding of sources and types of revenue, as well as the different types of costs (direct, indirect and SG&A), can truly elevate a contractor from a financial reporting perspective and likely lead to more accurate reporting of gross profits. CE

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Profitability in Construction: It's All in the Bidding

BY JOHN WATERS

When starting a construction project, contractors review many factors to meet the desired profitability. But to make sure the numbers add up at the end of the day, it all begins with proper bidding.

In construction, everything is bid or estimated out. Pricing strategy is based on the cost of materials, labor and margin. If contractors bid aggressively, then margins end up thinner. Room for error is minimal, and bidding is competitive regardless of the market.

Consider an example of a project bid at $1.5 million. That $1.5 million is probably going to cost $600,000-$800,000 in materials and labor, which is calculated by totaling person hours, contractors, materials, permits and all direct costs. Then, the appropriate amount margin is added to cover the overhead, insurance, salary, staff, supervision, etc.

Job costs come down to how the actual hours of the subcontractors and the materials are accurately executed against the original estimate. So, if the bid was accurate and is executed accordingly, it should generate the gross margin and profit anticipated as well.

Profit margin can be lost, however, due to unknown factors. For example, a project is estimated to take 90 days to complete. By mapping out the project for 90 days, the production crews and subcontractors should be one-third completed with the project after 30 days. In addition, nearly one-third of the hourly labor

> *"A project must first be bid correctly, then mapped out to achieve that bid.*

budget or subcontractor's budget will have been spent at this juncture. If, by the 60-day mark, 90% of the budget has already been spent on hours, and contractors and are only 60% complete, they are over budget. This is either caused by incorrect bidding or mismanagement.

In order to fix an issue like this, the project must first be bid correctly, then mapped out to achieve that bid.

Kyle Ballew, partner at Live Forward Ventures, says that the best way to stay on budget and obtain correct bids on projects comes down to the details.

"The more detail you have upfront, we have found, the less cost overruns and delays to the schedule. That also affects profitability, and we have fewer surprises with the detail up front and the bidding process we use," he says.

When it comes to staying on budget, having a plan for the project from beginning to end—and being able to execute that vision on a financially accurate level—starts before the project begins.

"It starts way before the bidding process," Ballew says. "When we are in the design phase, we have profitability and labor costs in mind from day one. By the time we get to our bidding process we have a 'ballpark' of what we're going to see back because of the cost per square foot, as well as the type of materials we are using, and we try to seek that out before we finish our design so we aren't on the backend trying to get numbers down."

The communication and the details are the most important part that I've experienced in development," Ballew says. "There are all sorts of general contractors and bidding processes out there, but you can never provide enough detail."

Contingencies

Most contractors will put contingencies into a bid, and it will impact the price of the project. That's always the needle to thread. How much in the way of contingencies should be added into a project to safeguard the future? Those contingencies will protect against profitability, but can also keep contractors from winning the project at all. So how can the best of both worlds be achieved?

The best way to bid a project is to bid the actual hours, the actual materials, the actual contractors, the actual equipment costs and margin to make a respectable profit, which is where the planning takes effect—because the project is already built on paper.

Contingencies are put into bidding contracts because, inevitably, things happen on a project. For example, contract language was missed or overlooked in the initial bid, economic conditions changed, or inclement weather occurred. By placing contingencies, contractors are prepared for these situations, but execution is critical to stay on budget and meet the margins of the project.

Regardless of a contractor's confidence in a bid, contingencies should be added to provide a larger margin and allow for potential risk.

Fixed Price

Most construction projects are set at a fixed price; contractors bid labor and materials with a margin to arrive at that fixed price. It's up to the

> *Regardless of a contractor's confidence in a bid, contingencies should be added to provide a larger margin and allow for potential risk.*

contractor to ensure costs are correct and that they execute correctly so they can make a profit.

A fixed price can be risky for contractors. For example; if a contractor is bidding on a $1 million project and they want to walk away with a 25% gross margin, they will have spent 75% in costs of materials and labor and will leave with $250,000 in gross margin to cover operating overhead, insurances, project management salaries, vehicles, etc.

The risk for contractors is that, instead of picking up the expected margin, their 25% investment only comes in at 20%.

The key to get the maximum, bottom-line profitability on a construction project is to make sure the bid is done correctly and accurately. Creating the plan on paper and mapping out the project before the ground is even broken has the largest effect on the profitability of any project. Once these items are finished accurately, then execution is all that matters.

John Waters is president and owner of Waters Business Consulting Group, LLC. For more information, visit watersbusinessconsulting.com.


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