Mueller Prost PC
CPAs + Business Advisors

DIMENSIONS *A CPA's Report to the Construction Industry* **Summer 2013**

MAKING TECHNOLOGY PAY

Six Tech Trends to Watch

Love it or hate it, technology is a key driver in the contracting business today. Although staying on the cutting edge of technology may not be practical for every company, it's wise to stay aware of what's available. Here are six technology trends that will affect the construction industry for the foreseeable future.

1. Software Collaboration and Integration

Estimating and project management software connects all members of the project team. It provides immediate access to critical project information to all who need it, including the contractor, subcontractors, designers, engineers and, ultimately, the customer as well.

While some large contractors use customized project management software, "off-the-shelf" programs are often adequate for smaller or medium-sized contractors. One point to consider if you are investigating new software is the ability to adapt to the new Windows 8 platform.

Another critical consideration is mobile access - more about that in a moment. Other desirable features include the ability to deliver status reports, schedule changes and updates in real time, as well as access to project photos and webcams. Of course, adequate online security is also essential.

2. Building Information Modeling (BIM)

Evolving out of the computer aided design (CAD) programs of the 1980s, building information modeling software takes integration and coordination to a whole new level. In addition to building a virtual, three-dimensional model of the project, "4D" BIM systems add time as a fourth dimension by modeling how the construction process will proceed.

The goal is to identify potential clashes and bottlenecks that can occur as various subcontractors are brought in. BIM also helps streamline ordering, precutting and staging of materials.

More advanced BIM systems are known as "5D" and "6D." The fifth dimension is cost and the sixth dimension is a final, "as built" model of the finished project that includes product data and specifications, photos, and maintenance and warranty information for facility management.

3. Enterprise Content Management (ECM)

Enterprise content management encompasses the various strategies, methods and tools your company uses to capture, organize, store and retrieve all the documents and other data you use.

The goal of an ECM system is to either capture paper based information and digitize it or eliminate paper entries altogether by entering data directly into the system, where it can be stored more securely and accessed more readily. Benefits include faster document retrieval, access from almost any location, and greatly reduced physical space requirements.

4. Mobile Applications

One leading research firm predicts the smart mobile device sector (including smart phones and tablets) will grow overall by almost 20 percent in 2013. It is reasonable to expect that construction related applications will mirror that trend.

Mobile apps can be used to log hours on payroll, order materials, schedule contractors and subs, and document work as it is completed. Most bid management, estimating, project management, BIM and CAD programs now (or will soon) offer smart phone applications.

5. Barcode and RFID Tracking

Barcode scanners have been around for over 30 years, so they are far from the cutting edge. Today,

Six Tech Trends to Watch, Cont'd.

even the smallest contractors can afford to use barcodes and rugged mobile scanners to keep track of tools, equipment and consumables.

The next step beyond the barcode is radio frequency identification (RFID), which uses tags that emit electromagnetic fields to track and inventory tools and equipment. Some contractors use RFID tags on hard hats and ID badges to monitor employees, document attendance, manage traffic on the jobsite, and provide data for improving productivity and safety.

6. Cloud Computing

Despite many proponents, cloud computing - using remote data centers to store your business data and the software programs you use to work with that data - is still somewhat unnerving to some contractors. Nevertheless, it appears that the trend toward greater reliance on cloud based services is irreversible.

Here again, the growth of mobile technology is helping to accelerate acceptance. Using smart phones and tablets to access project management or estimating software can be a good way to ease into cloud computing gradually.

Whether you are looking to lower costs, reduce losses, improve productivity or simply manage jobs more efficiently, odds are there are ways that technology can help. Like any other investment, however, an investment in new technology should always be considered in terms of the potential benefits it can provide.

For more information about business technology trends, please call us today for a consultation.

MULTI-EMPLOYEE PENSION PLANS

Prepare for New Disclosure Requirements

Contractors who participate in union sponsored multi-employer pension plans faced a new disclosure requirement when they prepared their 2012 year end financial statements. In most cases, those statements are now being circulated to lenders and sureties, where the new disclosures may be closely scrutinized.

If your company makes contributions to one or more union pension plans, you should familiarize yourself with the disclosure requirements in order to prepare for questions your bank or bonding agent may raise.

Who's Affected

The new disclosures are required by Accounting Standards Update No. 2011-09, Disclosures About an Employer's Participation in a Multi-employer Plan. The Financial Accounting Standards Board (FASB) issued this update to make it easier to assess the potential future cash flow implications of a company's participation in multi-employer pension plans.

The amended disclosure requirements cover all non-governmental organizations, not just contractors. But, the construction industry is particularly affected because of the nature of its workforce and the critical role a healthy balance sheet plays in enabling contractors to secure financing and bonding. In addition, contractors are often required to participate in union multi-employer pension programs as a condition of performing taxpayer funded contracts.

The amended disclosure requirements apply only to multi-employer defined benefit plans — that is, plans in which many employers' contributions are pooled into a single pension fund, which is then used to pay a guaranteed benefit to retired members. Defined contribution plans, where retirees are not guaranteed a specific benefit, are not covered by the update. Neither are single employer plans, or plans that maintain separate employer accounts so that each employer's contributions are set aside for its own employees.

Prepare for New Disclosure Requirements, Cont'd.

Purpose of the New Requirements

If a multi-employer pension plan is found to be inadequately funded to meet its projected obligations, participating employers may be required to increase their contributions. Moreover, if a company withdraws from the plan, it may be required to make a final payment to cover its projected share of future unfunded liabilities.

These projected liabilities do not appear on a company's balance sheet since they have not yet vested. The purpose of the new FASB disclosure requirement is to create greater transparency so that users of financial statements can assess the future cash flow implications that might arise.

What You Must Now Disclose

The new standard does not require you to estimate future pension plan liabilities, but you are required to disclose an extensive list of relevant pension plan information, including:

1. A listing of all significant multi-employer plans in which your company participates, including plan names, plan numbers and employer identification numbers (EINs).

2. The level of participation in each plan, including the amount of contributions made by the company and an indication of whether these contributions represent more than 5 percent of the total contributions made to the plan by all employers.

3. The financial health of each plan, including an indication of the funded status, whether funding improvement plans are pending or implemented, and whether the plan has imposed surcharges on contributions.

4. The nature of your commitments to the plan, including when relevant collective bargaining agreements are set to expire.

This information is typically presented as a table in a footnote to the financial statements. Disclosures must be comparative for 2011 and 2012. All the information you need to comply should be provided to you by the plan administrator.

Using the plan name and number, users can then obtain additional information from the plan's annual report (Form 5500), which is available on the Department of Labor's website at http://efast.dol.gov (click on the EFAST2 Filing Search Guide link).

The commercial banking and surety credit industries supported these new requirements, since they have an obvious interest in potential future liabilities. With the amendment now in effect, you should be prepared to discuss issues raised by these disclosures, such as collective bargaining agreements that expire soon, the financial health of other plan participants, and other factors that could affect your company's exposure to multiemployer pension plan liability.

Please call us if you have questions about multi-employer pension plans.

A COMPLEX QUESTION

When and How to Report Job Costs

Many contractors struggle with determining how and when to deduct costs they have incurred on projects that are still in progress at the end of the tax year. Deciding which costs should be expensed immediately and which should be capitalized can be difficult.

IRS guidance on the question can be lengthy, complex and technical. A fundamental understanding of the principles involved can make things easier for both you and your accountant.

Expense vs. Capitalization

When a cost is capitalized rather than deducted as an expense against current year income, the cost is added to the asset side of the balance sheet. Its value is either capitalized into work in progress until the end of the job or, in some cases, amortized or depreciated over time. Thus, capitalizing a cost will have a direct effect on both your balance sheet and your bottom line for the current tax year, and usually for several subsequent years as well.

The natural inclination is to expense every cost possible in order to reduce taxable income, but most costs related to the construction of a building must be capitalized since they ultimately add value to the underlying asset. For projects that are still underway at the end of the tax year, which costs are capitalized depends on a variety of factors.

Accounting Method

The first variable is the contractor's method of accounting. For tax purposes, most construction businesses are required to use the accrual method of accounting and the percentage-of-completion method (PCM) for allocating revenue and costs on long-term projects. Long nterm projects are generally defined as those projects that are not completed in the same tax year they are started. For example, a project that begins on Dec. 31st and is completed on Jan. 1st would be considered a long term project for a calendar year contractor. There are exceptions, however, for some small contractors, short term contracts, retainage in contracts, and even some larger residential builders, depending on the nature of their business.

Moreover, even contractors who use the completed contract method (CCM) face decisions about how to allocate certain indirect or overhead costs, such as workers' compensation and insurance costs.

Capitalizing Direct and Indirect Costs

Depending on the method of accounting you use for long term contracts, you may be required to capitalize all direct costs related to work in progress at the end of a tax period. These include workers' wages, overtime, sick leave, vacation and holiday pay, and related payroll taxes, as well as the cost of materials used in the project.

In addition, many indirect costs may also need to be capitalized to the extent they can be allocated to a specific project. Examples include indirect labor, officers' salaries, pension and employee benefits, administrative costs, depreciation and amortization, office rent, taxes, insurance, licensing, utilities, and tools and equipment.

Interest costs are subject to several different capitalization scenarios, depending on the nature of your business, the project's stage of completion and other factors.

Year-Round Awareness

The deductibility of expenses can also be affected by changes to the tax code that are written into various pieces of legislation, such as expansions of Section 179 and bonus depreciation allowances, which were extended through 2013 as part of the American Taxpayer Relief Act on January 1, 2013. Such provisions are likely to come up for legislative action again, so it's essential that you consult with your accountant to stay up to date.

But don't wait until the end of the tax year to start considering these issues. Accurate recordkeeping throughout the year is essential in order to avoid a year end rush for missing information.

By staying on top of costs and categorizing them promptly, the year end tax planning process can be greatly simplified.

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Collections Are Critical in Today's Economy

1 Know your customer.
A thorough credit check is essential for any project owner with whom you do not have a track record. Be sure you know the owner's financing sources, as well.

2 Get off to the right start.
Build in contractual protections at the beginning of the project and make sure you understand the documentation you must present to get paid.

3 Protect your lien rights.
Always file a contractor's lien for any unpaid invoice before the deadline. Inform your customer at the outset that your company never makes exceptions to this policy — it's just good business.

4 Renegotiate retainage (when possible).
When the project nears completion and you've established a solid performance record, don't be shy about asking for an early or partial release of retainage.

5 Encourage prompt payment.
Some subcontractors overcome "paid when paid" clauses by offering discounts on invoices that are paid within 10 days. Joint checks, which require endorsement by both the general contractor and the sub, are another sound payment practice.

6 Manage change orders aggressively.
Prompt and complete documentation of all out-of-scope requests is essential. This can sometimes be a sticking point, especially when working with owners who are not familiar with this practice.

Mueller Prost PC offers practical solutions and insightful advice to individuals, businesses and non-profit organizations, providing a full range of audit, tax, accounting and business advisory services. The experience of our more than 80 accountants, engineers, operations leaders and former business owners gives us a unique and comprehensive perspective to address the needs of growing organizations. In addition, we leverage our membership in PKF North America (an association of more than 100 legally independent accounting and consulting firms) to enhance our national and international capabilities. For more information, visit **www.muellerprost.com**.

The firm offers a full range of professional tax, audit, accounting and management advisory services to the construction industry.

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