

ON-SITE

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Elliott Davis LLC

Construction Services Group

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Their golden years, your golden opportunity

Retiring baby boomers create a lucrative building niche

Baby boomers edging closer to retirement are starting to think about where they want to spend their golden years. And this far-from-frail group wants to do more than just frequent bingo parlors and dine on “early bird specials.” The good news for you is that this desire to maintain an active lifestyle can mean a golden opportunity for creative, innovative and market-savvy contractors.

This generation wants more

Baby boomers don't want to retire, they want a second chance. They want to do all the things they've been too busy to try while working — including health and fitness activities, additional education, volunteering, and even second careers. And they're looking for convenient, comfortable housing to live in while they do it.

Price remains a factor, though. Although baby boomers are poised to be the most affluent generation of retirees to date, the markets for low- and middle-income senior housing are and will remain strong. These markets want sophisticated, well-planned residences right up there with their higher priced counterpart.

Local governments may help

It would be a risky endeavor to try to meet the burgeoning demand for senior housing on your own. Your best bet is to find suitable partners.

A number of builders have joined with local governments to develop their projects. One — the Northside Community Center & Mabuhay Court development in San Jose, Calif. — succeeded so well that it earned the 2004 Builder's Choice Project of the Year award.

This mixed-use development includes 96 low-income senior housing units with private balconies and walk-up stoops that echo the single-family homes across the street. A public park, courtyard



and trellised walkways visually separate the residences from a 16,000-square-foot senior community center where residents gather for social activities, meal programs and classes in everything from dancing to finance.

Universities wise up

In other parts of the country, builders are collaborating with universities to offer retirement communities on or near campuses. These developments benefit retirees by offering volunteer and, perhaps, teaching opportunities as well as access to university sporting events, classes, lectures and concerts.

Senior housing is good for universities because it creates a ready supply of willing and able volunteers while sparking intergenerational opportunities that both the retirees and students might otherwise miss. In addition, because the seniors often are alumni or somehow affiliated with the college or university near which they live, the potential for additional financial support increases.

For builders, university-related housing translates to sales. In fact, as of last October, at least 60 university-based retirement communities were open or in the works, estimates the National Center on Housing and Living Arrangements for Older Americans at the University of Michigan.

One that has been nationally recognized is The Village at Penn State — 150 apartments and cottages in State College, Pa., about a mile from Penn State University. Many of the residents, who must be 62 or older, have some connection to the university. All have the advantage of receiving transportation to university football games.

Health care helps, too

As active as today's seniors are, they also know that, as they age, they'll likely want or need additional health care services. Thus, also consider contacting major medical facilities in your market to see whether they'd be interested in linking their organizations to housing projects.

One such development is University Place Retirement Center in Houston. The 186-unit facility sits on 10 acres between Memorial Southwest Hospital and Houston Baptist University, affording ready access to both educational opportunities and health care — all within walking distance.

Of course, safety also factors into retirees' medical concerns. Low-maintenance exteriors, few stairs, efficient central heating and air conditioning systems, and adequate storage space will play critical roles in any proposed project. Residents may eventually need upgrades or renovations to accommodate decreased mobility as well.

Outdoor spaces rank high

Wherever and however a retirement community develops, you should expect its design to suit the active and independent seniors of today (and

REMODELERS TAKE NOTE: SENIORS NEED YOU

With U.S. Census Bureau estimates showing that the over-65 population will grow by 147% in the next four decades, remodeling for seniors may well be the growth market of the future for contractors.

Conversions to first-floor bedrooms, for example, can help seniors remain in their homes. They may also desire easy-to-reach shelving, wider doorways, and bathroom upgrades that include handheld shower heads and grab bars, nonslip flooring, and crank-operated windows.

Ultimately, seniors will welcome any improvements that increase their comfort, make upkeep easier and accommodate their increasing physical limitations. If your construction company is in a position to fulfill any of these needs, consider yourself notified.

tomorrow). Walking is one of the most important activities for retirees. In fact, 52% of homebuyers 55 and older rated walking and jogging trails as among the top amenities that would seriously influence their choice of communities, according to a 2002 National Association of Home Builders survey.

Outdoor spaces — especially parks — were a close second, with 51% of respondents rating them as very important. Open spaces and public transportation each appealed to 46% of those surveyed, with lakes, outdoor swimming pools, security guards, clubhouses, exercise rooms and business centers rounding out the top 10.

Nature trails, gardens, golf courses and tennis courts will also enhance a retirement community's exterior appeal. Interior advantages such as libraries and reading rooms, game centers, bowling alleys, dancing parlors and computer areas will boost the marketability of your project as well.

Good partners will prosper

Contractors who understand retirees' needs can prosper by building housing that gives seniors more options than yesteryear's retirement communities. But the most lucrative opportunities won't lie in hit or miss efforts. For best results, look to partner with other organizations to truly fulfill the potential of these projects. **T**

Tax reforms are mostly good news for contractors

When the American Jobs Creation Act of 2004 (AJCA) was signed into law on Oct. 22, 2004, businesses of all sorts suddenly had a lot of tax law changes to chew on. For construction companies, most of the reforms are easy to digest. Some aspects of AJCA, however, may not be quite so palatable.

The manufacturer deduction

Perhaps the most significant provision in the act for contractors is the manufacturer deduction. It defines construction as a

production activity, thereby allowing you to deduct 3% of your production-related net income or your taxable income, whichever is less, in 2005 and 2006. The deduction will increase to 6% for 2007 through 2009 and jump to 9% for 2010 and beyond.

The tax break is, however, limited to 50% of your W-2 wages paid. So a company with \$1 million of qualifying income, for example, would need to have paid wages of \$60,000 or more to claim the 3%. If you use professional employer

Futurescope: Construction Business Trends

Track projects in real time with Internet jobcams

A few years ago, contractors started availing themselves of “Webcams” — video cameras that feed images directly to the World Wide Web — to monitor their job sites. If you’re tech savvy enough to use (or consider using) this technology, you might be somewhat amazed to learn researchers at Stanford University have already gone one better.

They’re developing Internet jobcams, which are actually several Webcams set to take time-lapse images at specified intervals and link them to 4D computer models (3D project models combined with construction schedules).

The system segments the time-lapse images into areas that correspond to various building components — foundation walls, for example — and calculates the time it takes you to complete each one. As the jobcam constantly updates the 4D model, it creates an accurate, real-time record of job progress.

These systems are still in the experimental stage, but they could eventually play a critical role in construction project management. Developers envision them as one day eliminating the need for manual data collection, which is often costly, time-consuming and inaccurate. They also believe jobcams won’t cost much because the systems will rely largely on existing technology and software.

In addition to fulfilling project management applications, jobcams will be useful for cost accounting, safety and health programs, and job planning. Along with tracking current jobs, they allow you to simulate future projects based on data collected from previous ones. Thus, you can better plan for expenses, protective measures and scheduling. In short, Internet jobcams may soon give you the best view on the block, so keep an eye out for this coming technology breakthrough.

organizations or construction-specific labor agencies for most of your staffing, you may want to be sure the wages and bonuses you pay yourself, key employees and shareholders are enough to qualify for the deduction.

S corporation improvements

The law also makes it easier for small businesses to become S corporations by increasing the allowable number of shareholders from 75 to 100 and by counting members of the same family as a single shareholder.

S corporation status is an appealing option for smaller construction companies because the business itself pays no federal income tax. Instead, individual shareholders pay taxes on their corporate income. The tax law changes mean companies owned by large multigenerational families may maintain S corporation status while also allowing more employees to become equity shareholders.

Depreciation doings

AJCA also includes several provisions related to depreciation. One decreases the depreciation period for certain interior commercial leasehold improvements from 39 years to 15 years for buildings that are more than three years old.

Another provision implements the same depreciation period for qualified restaurant property improvements as long as the property is placed in service after the act's effective date and before Jan. 1, 2006. These changes may inspire more commercial property owners and restaurateurs to engage your services for renovations.

Additionally, the law extended the higher Section 179 expense election limit through 2007. This election allows a current deduction for assets that would otherwise be subject to the normal depreciation rules.

Thus, you can still claim the higher Sec. 179 deduction on eligible property — including machinery, equipment and most storage facilities — in the year you buy it. (Income-producing property or buildings don't qualify.)

The limit on how much you can buy and expense under Sec. 179 for 2004, adjusted for inflation, is \$102,000. For 2005, the limit increases to \$105,000.

The phaseout limit, also inflation-indexed, has increased from \$400,000 to \$410,000 for 2004 and will rise to \$420,000 for 2005. Every dollar of your qualified purchases exceeding the phase-



out limit reduces your deduction limit by \$1. So if, for example, you spend \$450,000 on qualified property this year, the most you can expense is \$75,000.

You may find two other depreciation-related items less satisfying. First, AJCA did not extend the 50% “bonus” first-year depreciation on eligible property. It expired Dec. 31, 2004.

In addition, AJCA raised the weight minimum for vehicles that qualify for full Sec. 179 expensing from 6,000 pounds to 14,000 pounds or more, rendering ineligible many contractor-favored sport utility vehicles. Those merely over 6,000 pounds can still qualify for \$25,000 of the expensing election. This provision is effective for vehicles placed in service after the act's effective date.

A substantial serving

Like any tax law, AJCA contains a number of restrictions and requirements that you'll need to consider before attempting to claim any of its breaks. But, overall, Congress has dealt contractors a fairly substantial serving of saving opportunities. As the year goes on, be sure to keep tax planning in mind as you make any important business moves. **T**

Time's up: FIN 46(R) may now affect your financial statements

Continuing its crusade against corporate financial scandals, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46) regarding variable interest entities (VIEs) in January 2003. The interpretation was so complex that FASB delayed its implementation and issued a revised interpretation in December 2003, FIN 46(R), to give accountants and companies a chance to digest its contents. Well, time's up — or it soon may be.

Consolidation requirements

FIN 46(R) requires that, in most cases, the financial statements of a VIE be consolidated with the financial statements of its operating company. But the first hurdle to compliance is deciding whether a business arrangement even qualifies as a VIE.

Possessing variable interests alone does not a VIE make.

FASB describes VIEs as entities for which ownership of interests other than voting stock, otherwise known as variable interests, accounts for a controlling financial interest. Variable interests may include equity investments, leases, forward contracts, options and guarantees.

If your variable interests in a business venture expose you to a majority of the risk of loss and gain for that venture, you'll likely be deemed to have a controlling financial interest. But possessing variable interests alone does not a VIE make. Whether an arrangement qualifies as a VIE depends on the level of risk it subjects you to, the subordinated financial support you provide to it, and the decision-making authority you exercise over it.

For contractors, situations that may create a VIE include forming a joint venture for contractual reasons, launching a development company to

separate your assets from those of a project, and establishing an equipment rental business for estate planning purposes.

Disclosure rules

The criteria for identifying and disclosing VIEs are complicated. But, generally, if you are deemed the primary beneficiary of a VIE, you must disclose its nature, purpose, size and activities. You need to also disclose the carrying amount and classification of consolidated assets that are collateral for the VIE's obligations. Last, you must disclose a lack of recourse if VIE creditors (or beneficial interest holders) have no recourse to your general credit.

If you're not a VIE's primary beneficiary, you may still have to disclose whether you've significantly invested in it. This disclosure must describe the investment's purpose, size and nature, as well as your maximum exposure to loss as a result of involvement with the VIE. You must also disclose the activities performed by the VIE.

Effective dates

For VIEs created before Dec. 31, 2003, FIN 46(R) is effective immediately. For those created after this date, the provisions take effect at the beginning of the first annual period after Dec. 15, 2004. This means the first time most calendar-year companies will need to consolidate a VIE with their financial statements is Dec. 31, 2005.

The pronouncement does provide an exception from the consolidation provisions if a company makes a good faith effort to obtain the financial statements of the VIE but is unable to.

No easy answers

There are no easy answers when it comes to FIN 46(R). To ensure your construction company is in compliance, review your business partnerships and alliances carefully with your accountant. **T**

The Contractor's Corner

Tired of cost overruns? Communicate better

I know cost overruns are a part of the construction business, but mine are out of control. I'm doing everything in my power to eliminate change orders, yet I'm still seeing overruns on projects for which I thought I'd easily meet or beat our budget. What's the solution?

The answer may lie in improving communication between your company and the owners, architects and other parties you work with. Or so says the Construction Management Association of America's (CMAA's) 2004 survey of owners.

Respondents to the fifth annual study said incomplete drawings and poor preplanning processes are the top reasons for cost overruns. Following closely behind are escalating material costs, lack of timely decisions by owners and the nefarious change order.



To curtail these problems and prevent cost overruns, you need to communicate better with other project participants *before* work begins. And one effective means for doing so is forming a preconstruction planning team with the owner, architect and any other relevant parties.

Look before you leap

Collaborating early in the process will help level everyone's expectations regarding job costs. You'll also be able to better judge how long the project will take. Just remember that, if you expect to avoid cost overruns, you can't agree to an unrealistic job schedule just to make the owner happy.

In addition, working with the owner early on will enable you to catch potential design flaws. Many change orders can be traced to incomplete or unresolved drawing issues. During team meetings, don't hesitate to point out where the owner's design documents are lacking. Doing so will help resolve problems that could lead to duplication of effort or costly delays later on.

Check yourself

Preconstruction review meetings can help you double-check your own work, too. For instance, be sure you based your bid on realistic, comparable assumptions. Bidding 20% lower than your competitors may have gotten you the job, but trying to do too much "on the cheap" may cost more than that 20% to correct. As long as you're not drastically off, most owners will accept some adjustments.

Use the review meetings to also assess your fellow team members. The construction savvy of the owner, the cooperative spirit of the architect and developer, and the professionalism of any likely subcontractors can all substantially sway the project's final cost.

For example, if you know the owner is a person or organization well-versed in construction projects, you may be able to safely accelerate the job schedule to save time and money. A first-time owner, however, will likely call for greater patience and a more careful eye toward details.

Start early, start once

The job foibles mentioned in the CMAA survey may not be surprising, but they are preventable. By inviting your fellow project participants to the table before you break ground, you can lessen the chances that unwelcome surprises will occur and trigger the cost overruns currently plaguing your construction company. **T**

Tim Grow Serves Diverse Client Base

During his eight-plus years with Elliott Davis, Tim has served clients by delivering comprehensive assurance and advisory services and management consulting services to a diverse client base which includes construction, manufacturing, non-profit entities, service organizations and governmental industries. He has extensive experience in the auditing, tax, management consulting and licensing arenas as they apply to the construction industry. Tim has also provided service to clients related to the Department of Housing and Urban Development including audits of the multi-housing industry, cost certifications for both mortgagors and contractors and various consulting projects.



A graduate of the University of South Carolina with a Master of Accountancy degree, Tim is a Certified Public Accountant in South Carolina and Georgia. He is a member of the AICPA, the South Carolina Association of Certified Public Accountants, past treasurer of the Institute of Management Accountants, member of the Construction Financial Management Association and the Association of General Contractors. Tim can be contacted by phone at (803) 256-0002, or via email at tgrow@elliottdavis.com

Accounting for Revisions in Estimates

How many times have you had a contract schedule at the end of a fiscal year that presented jobs-in-progress that were on schedule, on budget, over billed with solid gross profit margins only to discover at the end of the next fiscal year that unanticipated changes and delays have caused the job to turn south? GAAP recognizes the uncertainty and complexity related to the measurement of construction projects and requires disclosure of these uncertainties so that financial statement users are aware of the related risks.

The outcome of any given job is heavily dependent on several factors, and actual results may differ dramatically from the assumptions used during the original bid process. Who could have anticipated the significant rise in lumber and steel prices occurring over the past several years? Have you had a situation that required you to keep a crew busy while waiting for their next project, so you sent them to work temporarily on another current project? What happens to those unanticipated labor dollars? Since estimates are the core of contract accounting, the estimates used must be adjusted repeatedly to reflect current economic conditions.

The primary components of contract estimates include revenue, cost and the extent of progress towards completion of the project. Changes in the estimates of each of these elements are inevitable. SOP 81-1 states that the nature of accounting for contracts is such that refinements of the estimation process for changing conditions and new developments are continuous and characteristic of the process. APB Opinion No. 20 *Accounting Changes* allows two alternative methods of accounting for changes in accounting estimates:

Reallocation. Account for the effects of the change to original estimates ratably over the period of change in estimate and subsequent periods. However, if a loss on a project is anticipated it must be recognized immediately.

Cumulative Catch-Up. Account for the change in estimate in the period of change so that the balance sheet at the end of the period of change and

the accounting in subsequent periods are as they would have been if the revised estimate had been the original estimate.

Both methods are used in practice; however, the cumulative catch-up method is the more widely used method. Since contractors are comfortable with accounting for contracts using the percentage of completion method, the cumulative catch-up method is easier to adapt since the method only requires changing a single component of revenue, cost or the extent of progress on the current job schedule. In contrast, the reallocation method requires tracking the effects of the change over several periods.

A final important component of any contract revision discussion is communication. It is important for all personnel to understand the positive influence they can have on the outcome of a project if they share all pertinent and current information among everyone involved in the project. Field personnel often fail to share problems they encounter and unanticipated difficulties with project managers, or they prefer to deal with them "in the field." Sometimes problems that seem insignificant or unimportant will mushroom into much larger problems further into the project. The earlier that management knows about such circumstances, the earlier they can institute strategies to mitigate further complications.

Conversely, management should keep all personnel aware of any changes so that they have the opportunity to make recommendations for revisions. Examples include possible design changes using alternative materials for products with escalating prices, or taking advantage of bonus clauses for early project completion if the project suddenly becomes overburdened with available company labor. Closely monitoring these critical estimates can clearly result in more accurate internal financial reporting and have a positive impact on both specific job performance and the company's overall financial performance.

Get To Know Elliott Davis

Since 1925, Elliott Davis has helped businesses succeed and families prosper by offering a comprehensive array of tax, audit, accounting, consulting and wealth management services to clients across the Southeast. Our mission is simple ... help every client achieve the highest level of success and peace of mind possible. That philosophy has helped make us one of the largest CPA firms in the Southeast, and among the Top 60 in the nation. Can we help you?

Firm Services

Our service mix is constantly expanding to meet the changing demands of a diverse client base. In addition to highly specialized services for the Construction industry, our broader services include:

- Accounting & Auditing
- Asset & Business Valuation
- Wealth Management Services
- Employee Benefits
- Litigation Dispute Resolution
- Retirement Plan Administration
- Tax Planning & Preparation
- Strategic Advisory Services/M&A

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