CONTRACTOR

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The finer points of joint ventures

Apprenticeship programs
Building a brighter future for the industry

Protect yourself with careful project documentation

Are you ready for the future of building design?

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THE FINER POINTS OF JOINT VENTURES

As construction season heats up nationwide, contractors could encounter opportunities to engage in joint ventures with other construction companies. These opportunities can be fruitful, but they pose risks and complications as well. Let's review some of the finer points of joint ventures, so you can be prepared should your business get the chance to participate in one.

Various advantages

Why do contractors choose to participate in joint ventures? As you might know from experience, there are various reasons. For starters, some projects, though potentially lucrative, are beyond the financial capabilities — in terms of both bonding and working capital — of a single construction company. A joint venture can reduce the amount of each participant's investment to a manageable level.

There's also a risk management benefit. A joint venture provides an opportunity for two or more contractors to participate in larger or more complex projects than they usually would. The financial and other risks of such jobs are shared by participants so, if things go awry, one business won't have to absorb all the negative repercussions.

A construction company might be able to broaden its horizons through a joint venture — literally. Contractors can move into other geographic markets by forming joint ventures with construction businesses in those areas.

Joint ventures sometimes play a role in diversity initiatives, too. It's not unusual for bigger construction businesses to partner with smaller, minority-owned companies to enhance diversity and bolster the reputation of the industry.

The hard part

The primary disadvantage faced by participants in a joint venture is loss of control. Most contractors are accustomed to managing project operations without input from another leadership team. However, when you become a partner in a joint venture, you must consider the interests of the other partners and sometimes change how you do things.

In fact, important decisions on joint ventures are often the result of compromise, after much discussion, among the partners. Therefore, as one might expect, an unwillingness to compromise is a major reason why some joint ventures fail.

Joint venture agreements

To avoid failure, which can lead to considerable financial losses and reputational damage for everyone involved, the parties should draft and sign a well-written and comprehensive joint venture agreement.

ACCOUNTING FOR INVESTMENTS IN JOINT VENTURES

Contractors that agree to participate in a joint venture should be prepared for complex accounting ramifications. There are three typical methods of presenting a construction company's interest in a joint venture on its financial statements:

1. Consolidation. Consolidated financial statements present the financial position, operational results and cash flows of a construction business and the majority-owned joint venture as if the two were a single economic entity. Note that, in some cases, using consolidation can lead to a joint venture being considered a variable interest entity, which can lead to particularly intense accounting challenges.

2. The equity method. Under this method, a joint venture participant recognizes its share of the earnings or losses reported by the venture through adjustments in the carrying amount of the participant's investment, as well as adjustments to the participant's earnings.

In relatively seldom cases, a contractor might use the *expanded* equity method to account for a joint venture. Under this method, the contractor presents its proportionate share of the venture's assets, liabilities, revenues and expenses in capsule form on its financial statements.

3. Proportionate consolidation. Investments in unincorporated joint ventures are sometimes structured such that each participant receives an undivided interest in the joint venture's assets and liabilities. So, the proportionate consolidation method enables a participant to report its pro rata share of the individual assets, liabilities, revenues and expenses of the joint venture.

Note: If a voting equity interest in a joint entity doesn't give the holder a controlling financial interest, or the ability to exercise significant influence over the operating and financial policies of the entity, the investment doesn't qualify for consolidation or the equity method.

Although the specific provisions of joint venture agreements tend to differ depending on the project and participants, the following items are commonly addressed:

- A statement of the venture's purpose,
- The capital contributions to be made by each participant (such as cash, equipment and other project elements),
- The rights and responsibilities of each participant,
- The bonding responsibility, if any, of each participant,
- How profits and losses will be shared,
- How decisions will be made,
- What, if any, dispute resolution measures will be used,
- Under what circumstances the joint venture can be terminated, and
- Default provisions and remedies.

Be sure any prospective joint venture allows time for you to have your attorney review the agreement, as well as for some negotiation among the parties.

A careful decision

Some joint ventures are designed and created for bidding, negotiating and performing one specific project. Others, however, are created to be permanent. The purpose of permanent joint ventures is usually to pool resources and bid on all contracts of a specific type for an indefinite period.

No matter why a joint venture is formed, it's critical that you and your leadership team thoroughly discuss the potential advantages and risks of the arrangement. You should also undertake a thorough due diligence process to vet your partners and the project owner. Your CPA can be of invaluable assistance in helping you crunch the numbers and decide whether to move forward. ■

Apprenticeship programs

BUILDING A BRIGHTER FUTURE FOR THE INDUSTRY

The term "pandemic weary" has been used to describe a population fatigued by anxiety and changes brought on by COVID-19. One could reasonably call construction business owners "skilled labor shortage weary" given that this pernicious problem has plagued the industry for years.

As one might expect, the pandemic has worsened matters. It not only shut down jobsites early on, but eventually created the conditions that caused "the Great Resignation" — the trend of an unusually large number of workers voluntarily leaving their jobs. And the virus will continue to have the power to compromise jobsite safety, which has always been a high area of risk for construction companies.

But hope is far from lost. Construction remains a vibrant and essential industry with much to offer those who wish to build the skill set necessary to grow a successful and potentially lucrative career. As has been the case for a long time, contractors can help their own cause by establishing, promoting and carefully conducting apprenticeship programs to draw strong candidates to the industry.

Why to consider it

There are, in fact, various ways that construction companies can benefit from a well-planned apprenticeship program. For starters, apprentices receive customized training that results in highly skilled employees whose skills are tailored to your needs and project types. On-the-job learning from an assigned mentor, combined with related technical instruction, increases productivity and knowledge transfer.

What's more, employees who have undergone apprenticeships are highly likely to remain loyal to the company, lessening hiring costs. A participating company can gain a reputation as an employer that's willing to invest in its employees. Meanwhile, a focus on safety training can reduce workers' compensation costs.

Certified apprenticeship programs offer a systematic approach to training that ensures employees can produce at the highest skill levels required for the jobs they fill. In doing so, the program provides a stable and predictable pipeline for the development of qualified workers.

As for the participants, chances are they won't want to sign up for an apprenticeship program unless they can see substantial benefits in the near-enough future. A well-developed program offers participants the opportunity to qualify for well-paying jobs, and provides the training needed to set a path toward even higher salaries or wages in years to come.

The registered approach

One way to differentiate your apprenticeship program from others is to register with the U.S. Department of Labor (DOL). Doing so will place it within a network of registered apprenticeships that offers access to additional expertise and support.

Your graduates will receive a national, industry-recognized credential, while your construction business may qualify for tax breaks at the state

and/or federal level. You can learn more about registering your apprenticeship program with the DOL at www.apprenticeship.gov.

To get off to a good start, the DOL recommends addressing key questions such as: Do we already have employees who could participate in an apprenticeship program? How will our business change in the future and which skill sets will we most likely lack? Ideally, your program will focus on the specific types of skilled workers who will be in shortest supply.

The agency also recommends looking for various partners with whom you might collaborate. Partner organizations can help you design a program, provide some of the educational resources and assist in finding the apprentices themselves. These may include other construction businesses or related companies (such as an engineering or design firm), industry or professional associations, and labor organizations. It's also critical to make your presence known with educational institutions (for example, community colleges) and public agencies (such as police and fire departments).

Organic growth

Apprenticeship programs aren't the only solution to the skilled labor shortage, and that's okay. Launching one will consume time and resources, and you'll have to exercise great patience while waiting to see the fruits of your labor. However, apprenticeships do represent a purely organic way for the construction industry to grow its own workforce. Your CPA can help you evaluate the costs and potential benefits. ■

PROTECT YOURSELF WITH CAREFUL PROJECT DOCUMENTATION

Here's an often-overlooked fact: Meticulous recordkeeping plays a key role in running a successful construction business. Without proper documentation, you cannot clarify your position when disputes arise, nor can you optimally defend yourself in the event of a claim against you. The proof of any project is in the paper trail.

Safe period

The documents a construction company generates and should retain tends to vary depending on its specialty, as well as the project type, number of parties involved and contract requirements. Generally, you need to retain job records for the duration of the liability period after completion date plus one year.

To determine that period, check each contract's document-retention requirements, as well as applicable federal, state and local statutes of limitations and/or statutes of repose. Of course, you should never destroy any documents related to pending or probable litigation, no matter how old.

Suggested categories

Every construction business should categorize documents based on those it most frequently uses. Once categorized, organize the document types by importance and risk. Here are some suggested categories:

Contract documents. Proposals, contracts and subcontracts describe, at minimum, the project's

scope, price, payment schedule, time frame, change-order process and other finer points of the agreement.

Project diaries. Daily reports and logs are a good account of what happened on a project from day to day and an excellent source of information about work done and who might be at fault in the event of a delay or loss. Photos and videos of construction progress are an excellent way to enhance this documentation.

Reports. This category can include project feasibility studies preceding a job, as well as work in progress reports and job cost reports.

Technical documents. Requests for information and responses, shop drawings, and other submittals can help support why a project was delayed or a change order was needed. Additional documents to keep are drawings and specifications, blueprints, and design and engineering calculations.

Meeting minutes and schedule updates. Keep records of who attends and what's said during preconstruction, job progress and "postmortem" meetings. Be particularly sure to document and retain written updates to the schedule if it changes.

Purchase orders, invoices and receipts. These documents not only support the financial history of the job, but also could be needed in case of an IRS audit.

Notice records and change orders. The former prove that you provided notice about potentially troublesome project issues. The latter show that you submitted a formal description of the additional work needed to complete the job and the associated costs.

Licenses and certificates of insurance. Carefully retain copies of licenses and proof of insurance to guard against frivolous claims and other legal issues. This documentation could also help you avoid charges for accidental worksite damage.

Emails and other correspondence. Agreements settled by handshake are nearly impossible to prove. Put it in writing! Save written letters or notes. Be sure you're backing up servers that house emails, text messages and other electronic communications.

Consider a policy

If you haven't already, consider implementing a comprehensive document retention policy that covers everything here and more. When in doubt on what to keep and for how long, consult your attorney regarding legal documents and your CPA for help with tax and financial documentation. ■

ARE YOU READY FOR THE FUTURE OF BUILDING DESIGN?

The COVID-19 pandemic and climate change are profoundly impacting building design. Top of mind for architects are sustainability, health and wellness, and the flexibility to adapt to changing needs. Contractors should adjust their expectations and upgrade their skill sets accordingly.

General changes

No matter what the sector, optimal ventilation has risen to prominence during the pandemic. Buildings will be designed with enhanced HVAC systems — natural and mechanical — to improve air quality and filter out viruses, germs and pollutants. This can include new window patterns, upgraded air filtration systems and technologies such as UV light to kill pathogens.

Although so-called "contact transmission" turned out to be a lesser COVID-19 concern, buildings of all types will still likely include automatic doors, voice-activated elevators, smartphone-controlled room entry, and hands-free light and temperature controls.

> High-performance ventilation systems and antimicrobial finishes will be a high priority in some buildings.

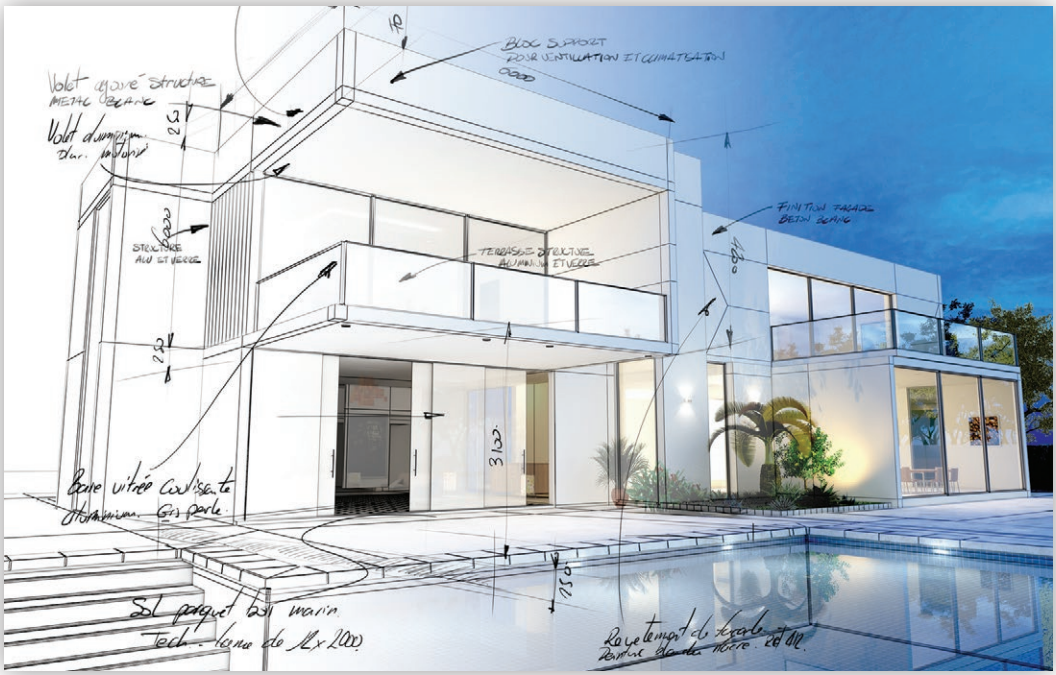
Sector specifics

Naturally, many of the design changes you could encounter will depend on the sector in which you typically work. Here are some specifics:

Residential. Now that remote work and learning have become much more common, architects are moving away from compact rooms or open-concept designs to more convertible spaces. Fewer columns are a must to accommodate flexible floor designs. Co-working spaces and offices for lease are hot building amenities.

People working from home also need their fresh air. In-unit balconies in multifamily residential buildings are trending, as are roof decks and ground-floor podium decks.

Commercial. Anticipate moving away from large floor-plate buildings with shared bathrooms, corridors and public areas among tenants. There could also be a shift away from open-office concepts. Private balconies are trending, as well as moveable walls, cubicle-style workstations, and spaces equipped to facilitate collaboration between onsite and virtual employees.



Large, operable glass walls are emerging as a durable, flexible and sustainable solution to separate indoor and outdoor spaces and workers. Multi-use space that can function as both indoor and outdoor areas is increasingly popular — particularly for commercial buildings that also house food and beverage establishments.

Hospitality. High-performance ventilation systems and antimicrobial finishes will be an especially high priority in these buildings. Hotel projects are ripe for retrofits and upgrades, which could include replacing carpeting with hard flooring and exchanging shower curtains for glass doors.

Expect expanded patio areas and parking lots, as well as covered pavilions. Both retail stores and restaurants will likely continue to be designed with curbside pickup in mind.

Don't lose your edge

Call it "the new normal" or simply building design evolution. Contractors should expect changes as the nation and world moves from pandemic to endemic and continues to grapple with climate change. To maintain your competitive edge, keep tabs on what challenges you'll likely face. ■

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About Wouch, Maloney & Co., LLP

Wouch, Maloney & Co., LLP is a regional certified public accounting firm with offices in Horsham and Philadelphia, Pennsylvania and Bonita Springs, Florida. The firm has provided closely held business and individual clients with a wide array of accounting services for over 30 years. Wouch, Maloney & Co.'s domestic, multi-state and international clients reflect a broad range of industries from real estate and construction to manufacturing, wholesale and professional service. The firm offers a comprehensive group of services including tax, audit and accounting, business consulting, estate planning, business valuation, litigation support and forensic accounting.

Serving the Construction Industry

Wouch, Maloney & Co., LLP prides itself on its niche practice in the construction industry. The majority of our clients are involved in construction and we are adept at recognizing and solving problems common to that industry. For over thirty years, we have represented contractors along with commercial and home builders in Pennsylvania, New Jersey and Florida.

- We develop **relationships with lenders and bonding agents** and understand how to present your financial picture in their preferred format.
- We assist you in **keeping a close eye on debt, cash flow, profit margins** and other measures of financial health.
- We prepare **contracts in progress** schedules that management can understand which clearly illustrate gross profit, job costing and over/under billings per job.
- We have highly trained staff with **expertise in construction accounting** who are detail oriented, but who do not lose sight of the larger goal which is to provide our clients with quality services to meet their many financial needs.

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