

Construction Industry

Accounting: GAAP, Contract WIP, Job Costing & Contractor Valuation Calculations 2026

Session 1 — 2026

Presented by:

- Robert A. Davidson, CPA
- Anson C. Martens, CPA



Audit. Tax. Consulting.
Wealth Management.

100 years



Agenda

- 1 Session 1 – Construction Industry Accounting & Financial Management Overview
- 2 Session 2 – Construction Accounting GAAP Review
- 3 Session 3 – Contract Schedules & Analytics
- 4 Session 4 – Contractor Valuations for Buying or Selling



Session 1

Construction Industry Accounting & Financial Management Overview

- *Construction Industry Financial Trends and Developments*
- *10 Reasons Contractors Fail – Risk Assessment*
- *Construction tax – quick review*
- *Surety and other Users reliance on financial statements*



Construction Industry Trends, Developments and Interesting “Stuff”

CONSTRUCTION INDUSTRY BASICS

RISK PROFILE

2nd riskiest business in America

DEFINITION

“Making or providing improvements to real property”

SCOPE

GAAP applies to long-term contracts —building a ship, Manufacturing Conveyors lines, software, etc.

CONTRACTOR SURVIVAL RATES • U.S. SMALL BUSINESS ADMINISTRATION

74.3%

survive 1 year

33.2%

survive 5 years

24.8%

survive 10 years

PROFITABILITY TRENDS (CFMA Survey — reported through 2024; 2025 projected)

2015–2025

Record net income across the industry

2021–2022

Temporary dip — Covid, supply chain, inflation

2023–2025p

All-time record profits — continuing; 2025 projected

WORKFORCE EFFICIENCY (record highs)

\$514,587

Revenue per FTE — record high

\$83,554

Gross profit per FTE — record high

Records hold even after inflation — above the mid-\$60K profit and mid-\$400K revenue levels of the past decade

The last 10-years have been the most profitable construction period ever



CFMA Benchmarker Survey 2024

Net income pre-tax % of Revenue • All Contractors – 1,639 Entities
(2025 will be released in Q3 2026)

Revenue Category	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
All Contractors	2.3%	1.8%	2.5%	3.4%	3.0%	3.0%	3.4%	4.5%	3.3%	3.9%	6.7%
Revenues < \$10 million	2.6%	1.3%	5.2%	5.3%	5.3%	3.2%	5.3%	2.5%	5.5%	6.1%	6.2%
Revenues \$10 – \$25 million	3.9%	2.2%	3.2%	3.9%	3.2%	3.6%	3.9%	6.4%	5.0%	6.8%	7.7%
Revenues \$25 – \$50 million	1.6%	1.9%	2.2%	3.5%	2.7%	3.0%	3.1%	5.3%	2.8%	4.9%	7.4%
Revenues \$50 – \$100 million	2.4%	1.4%	2.7%	2.7%	2.6%	2.9%	3.1%	3.2%	2.4%	3.8%	6.8%
Revenues \$100 – \$300 million	1.8%	2.3%	1.4%	2.4%	2.3%	2.7%	3.3%	4.8%	2.6%	4.1%	6.4%
Revenues over \$300 million	2.0%	1.2%	1.8%	1.8%	1.9%	2.0%	2.2%	2.9%	2.8%	3.0%	4.8%



CFMA Benchmarker Survey 2024

Net income pre-tax % of Revenue • Industrial and Non-Residential Contractors
397 Entities

Revenue Category	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
All Industrial & Non-Residential	2.3%	1.8%	2.5%	3.4%	3.0%	3.0%	3.4%	4.7%	3.3%	3.9%	4.4%
Revenues < \$10 million	2.6%	1.3%	5.2%	5.3%	5.3%	3.2%	5.3%	5.0%	5.5%	6.0%	3.3%
Revenues \$10 – \$25 million	3.9%	2.2%	3.2%	3.9%	3.2%	3.6%	3.9%	8.0%	5.0%	6.3%	5.9%
Revenues \$25 – \$50 million	1.6%	1.9%	2.2%	3.5%	2.7%	3.0%	3.1%	5.0%	2.8%	5.2%	4.7%
Revenues \$50 – \$100 million	2.4%	1.4%	2.7%	2.7%	2.6%	2.9%	3.1%	3.2%	2.4%	4.0%	3.9%
Revenues \$100 – \$300 million	1.8%	2.3%	1.4%	2.4%	2.3%	2.7%	3.3%	4.0%	2.6%	3.9%	4.2%
Revenues over \$300 million	2.0%	1.2%	1.8%	1.8%	1.9%	2.0%	2.2%	2.2%	2.8%	3.6%	3.4%



CFMA Benchmarker Survey 2024

Net income pre-tax % of Revenue • Heavy Highway Contractors
257 Entities

Revenue Category	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
All Heavy Highway Contractors	3.8%	3.5%	5.5%	5.8%	5.8%	5.6%	5.9%	8.1%	5.3%	6.8%	8.3%
Revenues < \$10 million	7.1%	4.8%	8.7%	6.9%	6.1%	5.1%	4.4%	7.0%	5.4%	7.1%	5.8%
Revenues \$10 – \$25 million	2.4%	3.3%	3.6%	5.5%	4.5%	6.4%	6.1%	10.2%	6.0%	11.3%	8.1%
Revenues \$25 – \$50 million	5.5%	4.9%	5.5%	5.1%	5.8%	5.1%	7.4%	8.9%	5.4%	9.3%	8.6%
Revenues \$50 – \$100 million	1.8%	2.8%	5.7%	7.4%	6.2%	5.9%	5.9%	7.1%	5.0%	11.5%	9.8%
Revenues \$100 – \$200 million	3.4%	2.4%	5.2%	5.0%	7.7%	5.3%	6.5%	8.1%	4.1%	9.7%	8.7%
Revenues over \$200 million	3.9%	4.2%	5.5%	4.5%	7.1%	5.3%	4.8%	4.6%	5.8%	7.1%	7.1%



CFMA Benchmarker Survey 2024

Net income pre-tax % of Revenue • Specialty Trade Subcontractors
510 Entities

Revenue Category	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
All Specialty Trade	3.3%	4.3%	5.4%	6.2%	5.8%	5.1%	6.5%	7.7%	5.8%	6.6%	7.7%
Revenues < \$10 million	3.6%	3.0%	6.3%	6.6%	4.8%	4.1%	6.8%	5.9%	6.1%	6.5%	6.5%
Revenues \$10 – \$25 million	3.1%	5.4%	6.0%	6.7%	6.8%	5.6%	6.4%	10.8%	5.9%	7.2%	8.0%
Revenues \$25 – \$50 million	2.4%	4.9%	5.3%	6.3%	7.6%	6.7%	7.3%	8.1%	6.4%	8.1%	8.5%
Revenues \$50 – \$100 million	4.1%	4.2%	4.8%	5.3%	5.1%	4.1%	6.0%	5.9%	5.2%	8.0%	8.3%
Revenues \$100 – \$300 million	3.7%	3.6%	3.8%	5.0%	4.4%	4.5%	5.8%	7.0%	5.4%	8.3%	7.0%
Revenues over \$300 million	3.1%	3.9%	3.3%	4.8%	5.0%	4.3%	4.8%	4.1%	4.0%	6.3%	7.3%



Publicly Traded Construction Company Stock Analysis

Stock prices as of July 28, 2026 • Pre-Covid baseline 3/1/2020

Company	Symbol	52-Wk High	Close 7/28/26	Pre-Covid 3/1/20	77-Mo Incr/(Decr)	77-Mo Change %	P/E Ratio	EV/ EBITDA*	EPS	Div Yield	Debt/ Equity	Levered Free TTM CF (\$M)
HEAVY HIGHWAY												
Granite Construction	GVA	\$162.08	\$121.85	\$17.50	\$104.35	596.3%	33.20	12.63	\$3.67	0.41%	129.13%	\$127.46
Construction Partners (CPI)	ROAD	\$151.00	\$106.14	\$17.27	\$88.87	514.6%	46.31	17.42	\$2.29	0.00%	188.43%	\$70.02
Knife River	KNF	\$96.28	\$78.94	\$36.48	\$42.46	116.4%	30.72	12.01	\$2.57	0.00%	95.10%	\$(42.73)
Sterling Infrastructure, Inc.	STRL	\$1,005.68	\$528.95	\$9.76	\$519.19	5,319.6%	47.24	32.72	\$11.17	0.00%	28.63%	\$346.89
Martin Marietta	MLM	\$710.97	\$583.72	\$238.75	\$344.97	144.5%	36.55	19.02	\$15.96	0.58%	50.35%	\$841.75
Vulcan Materials	VMC	\$331.09	\$288.16	\$127.44	\$160.72	126.1%	34.03	17.56	\$8.45	0.73%	61.25%	\$244.39
Oldcastle	CRH	\$131.55	\$103.56	\$34.31	\$69.25	201.8%	19.21	11.00	\$5.39	1.52%	83.23%	\$786.12
Cardinal Infrastructure**	CDNL	\$96.40	\$60.25	\$21.00	\$39.25	186.9%	44.64	17.57	\$1.35	0.00%	86.94%	\$(28.57)
Heavy Highway Subtotal			\$1,871.57	\$502.51	\$1,369.06	900.8%	36.49	17.49				
GENERAL CONTRACTORS												
Emcor Group	EME	\$951.96	\$706.13	\$76.95	\$629.18	817.6%	23.71	16.17	\$29.78	0.22%	13.35%	\$891.52
MasTec, Inc.	MTZ	\$441.43	\$312.23	\$28.50	\$283.73	995.5%	54.49	24.16	\$5.73	0.00%	88.05%	\$12.57
Fluor	FLR	\$57.50	\$49.32	\$8.85	\$40.47	457.3%	22.52	11.00	\$2.19	0.00%	36.29%	\$345.12
Skanska	SKBSY	\$31.50	\$27.74	\$22.50	\$5.24	23.3%	16.91	9.60	\$1.64	5.49%	25.14%	\$2,034.00
AECOM	ACM	\$135.52	\$74.44	\$44.78	\$29.66	66.2%	15.54	8.73	\$4.79	1.68%	135.21%	\$443.98
Tutor Perini	TPC	\$100.00	\$81.96	\$13.57	\$68.39	504.0%	56.13	13.54	\$1.46	0.28%	36.84%	\$665.89
Orion Group Holdings	ORN	\$17.40	\$11.92	\$5.31	\$6.61	124.5%	54.18	15.49	\$0.22	0.00%	78.50%	\$(4.76)
General Contractors Subtotal			\$1,263.74	\$200.46	\$1,063.28	426.9%	34.78	14.10				
EQUIPMENT COMPANIES												
Caterpillar	CAT	\$1,073.46	\$840.85	\$121.41	\$719.44	592.6%	41.85	29.38	\$20.00	0.75%	230.79%	\$3,780.00
Komatsu Ltd.	KMTUY	\$52.74	\$41.59	\$19.68	\$21.91	111.3%	16.44	9.48	\$2.53	2.86%	38.49%	-
Astec	ASTE	\$65.69	\$54.89	\$36.32	\$18.57	51.1%	49.01	15.43	\$1.12	0.93%	57.94%	\$2.73

* "EV / EBITDA" formula: [(Total market capitalization + debt - excess cash) ÷ EBITDA].

** Cardinal Infrastructure IPO on 12/10/25 - new Raleigh, NC civil contractor roll-up.

Construction backlog has remained steady, but signs of a construction slow-down are developing in some areas:

DECLINING

- **Retail** — online & pandemic
- **Office** — remote work
- **Religious / charity** — shrinking

GROWING

- **Healthcare & education** — strong demand
- **Warehousing & manufacturing**
- **Data centers**
- **Multi-family residential** — rents softening
- **Infrastructure / highway / Utility** — Federal +40% by 2028
- **Disaster recovery** — NC, TX, CA, TN

Watch

- **Home building** — price correction expected (8th since 1945), Certain markets are starting to level-off nationwide

Look for these trends and developments

Workforce & Talent

Recruiting & retaining people is still the #1 issue

- Incentives, deferred bonuses, benefits & workplace upgrades are critical
- Employee ownership trending – stock, co, phantom stock, equity “Talent Retention”
- ESOPs are not for every contractor—highly effective in the right circumstances

Possible Slowdown in Private construction

Possible private construction pullback in 2026–2027

- Oversupply – retail, office, multi-family & hotels report lower occupancy
- Cost inflation: \$1.00 = \$3.23 (2003 highway index), \$1.81 (2009 building index)
- Interest rates rose from 3.25% (2020) to 6.75% (2026), Rates are falling back from peak rate

M&A Consolidation

M&A activity up significantly across the industry

- Specialty trade tends to be highest focus with a level of scalable service revenue
- Self-perform diversification
- 2024/2025 was a record year, with more expected in 2026
- Driven by aging owners, no successors, owner fatigue

Recession & Market Risk

Tight bid market for GCs; subs continue to bid at a premium (labor shortage)

- Increase in contractor failures and surety claims – see 2025 surety results
- Is the construction industry overdue for a recession? 2008–2012 was last recession
- Construction recession every 5–8 years since 1945 (13-year 2025 run is longest in history)



ECONOMIC INDICATOR | U.S. DOT — FEDERAL HIGHWAY ADMINISTRATION

National Highway Construction Cost Index (NHCCI)

Highway construction costs have more than tripled since 2003, with the steepest acceleration coming after 2020.



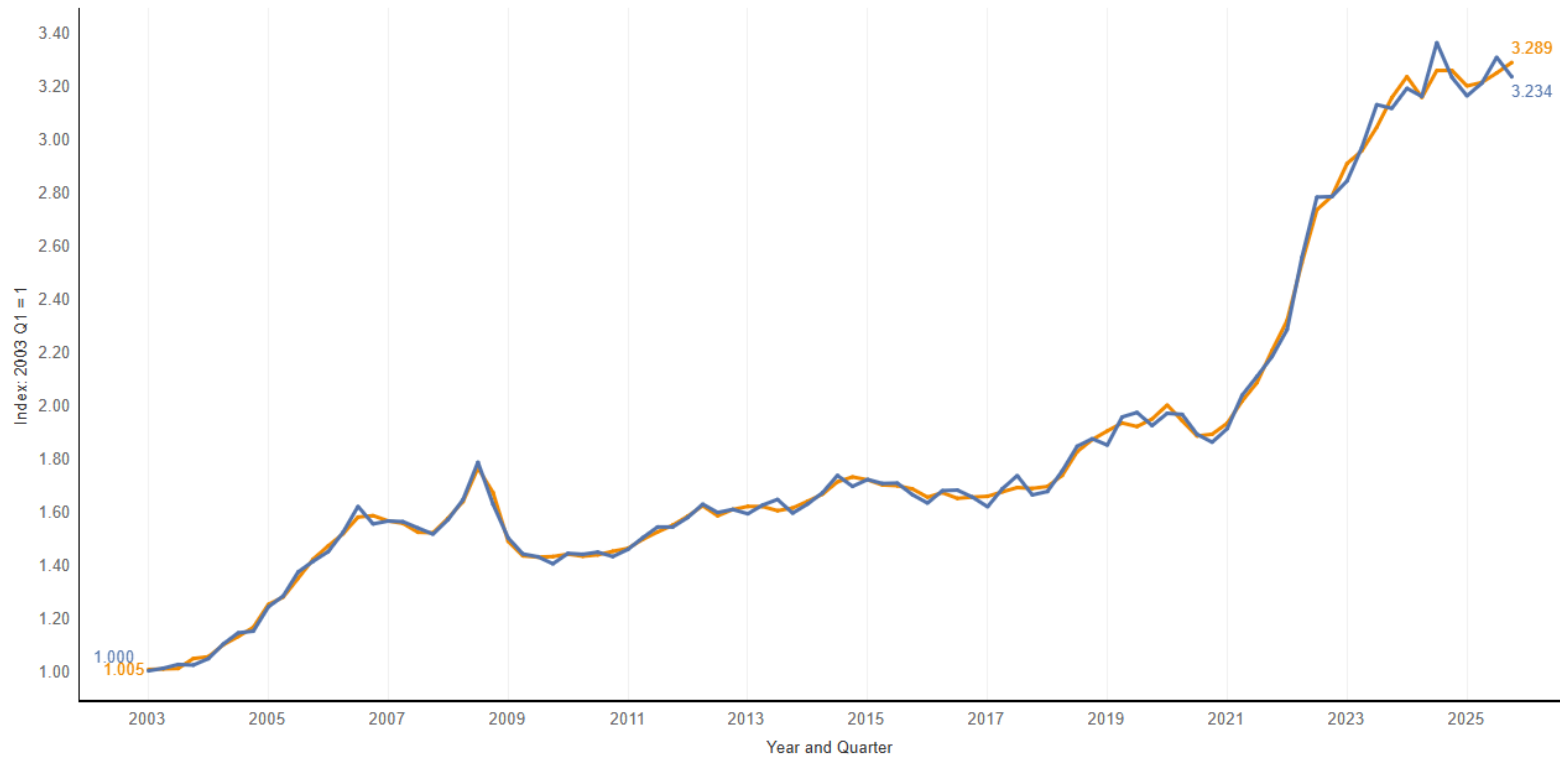
U.S. Department
of Transportation
Federal Highway
Administration

National Highway Construction Cost Index (NHCCI)

Select Year and Quarter:
2003 Q1

2025 Q4

Select Series:
☒ NHCCI
☒ Seasonally Adjusted NHCCI



3.2×

Index level vs. the 2003
baseline (2003 Q1 = 1.0)

~57%

Share of the total rise
occurring since 2020

2003–25

Quarterly cost history tracked
by the FHWA

Source: U.S. Department of Transportation, Federal Highway Administration (NHCCI), quarterly index through 2025; 2003 Q1 = 1.000. Most recent quarters are subject to revision.



plante moran

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Nonresidential Building Construction Costs (PPI)

Nonresidential building construction input costs have climbed roughly 43% since mid-2020, with the steepest jump in 2021–2022 and only gradual increases since.

~43%

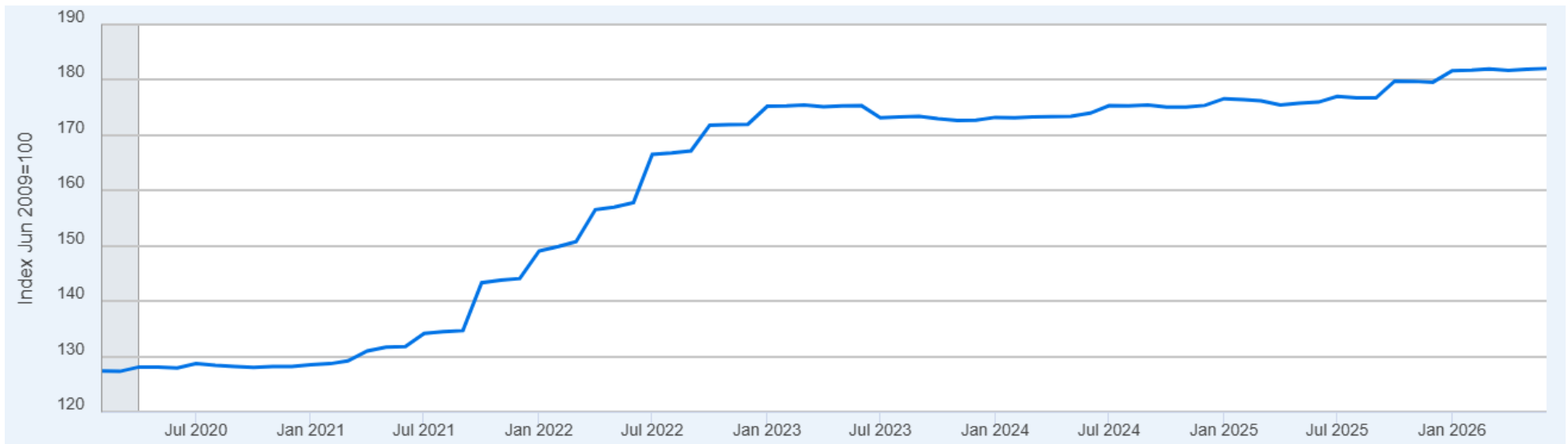
Rise in input costs since mid-2020 (127 → 181)

~85%

Share of the rise occurring in 2021–2022

2020–26

Monthly index tracked by BLS via FRED



Source: U.S. Bureau of Labor Statistics, Producer Price Index by Commodity via FRED® (Index, Jun 2009 = 100). Shaded areas indicate U.S. recessions.



INDUSTRY BENCHMARK | SURETY & FIDELITY

Top 20 Writers of Surety Bonds — Calendar Year 2025

The Surety & Fidelity Association of America · U.S. & Territories, Canada & Aggregate Other Alien · Preliminary

#	Group / Company	Direct Premium Written	Market Share	Direct Premium Earned	Direct Losses Incurred*	Direct Loss Ratio	Net Premiums Earned	Net Losses Incurred	Net Loss Ratio
1	LIBERTY MUTUAL GROUP	1,449,405,745	12.4%	1,333,344,994	154,109,974	11.6%	1,232,359,737	235,012,848	19.1%
2	TRAVELERS BOND	1,424,368,525	12.2%	1,317,689,513	144,508,552	11.0%	1,259,066,751	138,885,573	11.0%
3	CNA SURETY GROUP	736,434,238	6.3%	684,853,233	106,420,490	15.5%	662,489,507	103,706,555	15.7%
4	ZURICH INSURANCE GROUP	694,711,214	6.0%	688,834,174	500,435,975	72.6%	291,212,035	93,742,405	32.2%
5	CHUBB LTD	605,162,143	5.2%	553,313,421	38,594,918	7.0%	527,599,567	8,490,743	1.6%
6	INTACT INSURANCE SPECIALTY SOLUTIONS	350,920,495	3.0%	318,505,764	34,972,116	11.0%	318,395,305	31,352,879	9.8%
7	HARTFORD FIRE & CAS GROUP	308,457,055	2.6%	284,560,039	12,012,125	4.2%	344,203,239	38,044,275	11.1%
8	MERCHANTS BONDING CO GROUP	294,127,661	2.5%	279,408,232	4,208,819	1.5%	262,809,664	6,634,893	2.5%
9	CRUM & FORSTER GROUP	249,289,310	2.1%	243,284,210	48,661,403	20.0%	238,425,242	33,841,689	14.2%
10	NATIONWIDE CORP GROUP	239,227,608	2.1%	214,941,147	60,581,915	28.2%	187,650,608	44,475,417	23.7%
11	BERKSHIRE HATHAWAY GROUP	237,894,554	2.0%	203,846,700	74,399,767	36.5%	345,071,350	88,492,896	25.6%
12	HCC SURETY GROUP	215,287,209	1.8%	205,130,106	18,783,449	9.2%	216,233,191	15,676,687	7.2%
13	SOMPO GROUP	212,828,089	1.8%	202,039,993	120,079,005	59.4%	162,409,274	39,980,860	24.6%
14	SIRIUSPOINT GROUP	207,835,824	1.8%	198,174,130	65,536,713	33.1%	62,486,662	25,944,921	41.5%
15	MARKEL SURETY	194,891,568	1.7%	183,324,174	192,345,926	104.9%	156,907,866	51,999,883	33.1%
16	SWISS RE CORPORATE SOLUTIONS	191,210,596	1.6%	182,223,904	61,841,761	33.9%	(33,049,945)	(42,373,937)	128.2%
17	PHILADELPHIA CONSOLIDATED HOLDING GROUP	183,728,453	1.6%	175,862,292	97,093,378	55.2%	157,230,541	42,875,546	27.3%
18	ALLIANZ TRADE	177,402,357	1.5%	139,091,133	64,161,321	46.1%	9,513,772	4,147,190	43.6%
19	ARCH INSURANCE GROUP	176,503,818	1.5%	179,014,110	36,228,966	20.2%	165,548,745	58,948,380	35.6%
20	SKYWARD SPECIALTY INSURANCE	168,432,281	1.4%	150,130,295	31,311,157	20.9%	143,303,445	24,336,619	17.0%

* Direct Losses Incurred. Figures in U.S. dollars; ranked by Direct Premium Written. Source: The Surety & Fidelity Association of America (SFAA), Calendar Year 2025 (Preliminary).



Surety Loss Growth — Notable Carriers with Rising Loss Ratios

Direct losses incurred, calendar year 2024 vs. 2025 · Ranked by percentage increase in direct losses

Group / Company	2024 Direct Losses	2025 Direct Losses	Change	% Change	2025 Direct Loss Ratio
ZURICH INSURANCE GROUP	\$146.3M	\$500.4M	+\$354.1M	+242%	72.6%
SOMPO GROUP	\$43.6M	\$120.1M	+\$76.5M	+175%	59.4%
CRUM & FORSTER GROUP	\$30.6M	\$48.7M	+\$18.1M	+59%	20.0%
BERKSHIRE HATHAWAY GROUP	\$48.5M	\$74.4M	+\$25.9M	+53%	36.5%
CNA SURETY GROUP	\$95.2M	\$106.4M	+\$11.2M	+12%	15.5%
LIBERTY MUTUAL GROUP	\$146.5M	\$154.1M	+\$7.6M	+5%	11.6%
SIX CARRIERS COMBINED	\$510.7M	\$1,004.1M	+\$493.4M	+97%	—

A few observations

- Zurich Insurance Group posted the sharpest deterioration — direct losses incurred rose from roughly \$146 million to roughly \$500 million, and its direct loss ratio jumped from 22.5% to 72.6%.
- Sampo Group losses nearly tripled, climbing from roughly \$44 million to \$120 million.
- Several other major writers — including Berkshire Hathaway and Crum & Forster — recorded meaningful increases in both losses and loss ratios.

Direct Losses Incurred, in U.S. dollars. Source: The Surety & Fidelity Association of America (SFAA), Calendar Years 2024 and 2025 (Preliminary).



2025 “OB BB” Tax Law Changes Affecting Contractors

21%

C-Corporation rate

20%

QBI deduction

29.6%

Top pass-through rate

100%

Bonus depreciation



2017 TCJA Provisions Now Permanent

- 21% C-Corporation tax rate
- 20% QBI deduction for LLC and S-Corp
- Pass-through rate is still 29.6% – C-Corp v. S-Corp / LLC debate continues
- SALT deduction increased to \$40,000 – \$600,000 AGI phase-out, expires in 2030
- PTE election is still a good idea



Bonus Depreciation & Property

- 100% bonus depreciation reinstated for purchases after 1/19/2025
- 100% bonus for 39-year real property in manufacturing & production
 - New or “original use”; construction started after 1/19/2025
 - Used property allowed if not in use since 1/1/2021
- Production space only – office, parking, lodging, sales excluded



Code Section 460 Exemptions



Long-Term Contract Basics

- Long-term = a contract not completed in the same tax year it started
- A 12-month length is NOT the definition
- Non-long-term contracts are exempt from POC and reported on cash or accrual under §451



Small Contractor Exemption

- Average annual tax revenues below \$31 million for the 3 prior years – indexed in 2027
- Test the 3 years ending before the year a contract starts
 - Qualifying contracts may use completed contract or cash
- Contracts estimated to finish within 3 years of start also qualify (was 2 years)



Home & Residential

Home construction contracts

- 4 dwelling units or less per structure, plus related work
- Exempt under long-standing law

Residential contracts

- Multi-family over 4 dwellings – apartments, condos, dorms, barracks, prisons; excludes hotels
- 100% exempt for contracts started after 1/1/2026 (old law allowed 30%)



Construction Contractor Tax and Applying the Section 460 Exemptions



Transition & Filing

- Contract WIP at 12/31/2025 stays on POC until the contract is complete
- New contracts started in 2026 move to the exempt method
- No Form 3115 is required or should be filed – this is an automatic transition



Methods Available

- Long-term exempt contracts qualify for the completed contract method
- Cash and accrual are also available, subject to C-Corp limitations
- The method applies contract by contract, not company-wide



Elections & Details

10% election

- Revenue and costs on contracts less than 10% complete can be deferred
- Deferral works similar to the completed contract method

Support costs

- Infrastructure and support costs count when 80% attributable
- Confirm eligibility contract by contract each year



Construction Contractor Tax Methods

4

Basic tax methods

2

Long-term contract methods

§460

Governs long-term contracts

CCM

King of deferral



The Four Basic Methods

- Cash basis
- Accrual basis – generally the worst tax method for contractors
- Completed contract method for long-term contracts
- Percentage of completion for long-term contracts
- All four remain available after the 2025 law changes



Two Facts Worth Remembering

- Most contractors use multiple tax methods
- Cash and completed contract are kings of deferral
 - Driven by contract type, duration, and size
 - Accrual is rarely the right answer for a contractor
- Method selection is a major deferral lever



Other Construction Tax Issues



Lookback – Form 8697

- Required for Section 460 percentage-of-completion contracts
- Profit gain results in interest due on the prior-year underpayment
- Profit fade results in an interest refund on the overpayment



Claims & Change Orders

- Claims, change orders, and disputed amounts require careful timing
- 1% revenue de minimis threshold, capped at \$1M
- IRS has released a lookback interest calculator



Guidance & Other Changes

Revenue procedures to know

- Rev Proc 2018-19 – “applicable financial statement” exempts Section 460 exemptions and similar provisions
- Rev Proc 2018-29 – automatic contract segmentation

Other 2025 changes

- Estate exemption \$15M in 2026 (indexing starts 2027); 1099-MISC threshold \$600 to \$2,000
- Employee OT implementation; 179D and most energy credits phase out in 2026



Reliance on contractor's financial statements – More “Users” than most industries



Surety Bonding

Big-6: Travelers, Liberty, Chubb, Zurich, C.N.A., Hartford



Banks & Lenders

Cat Finance, Komatsu Financial



Contract Owners

Government (DOT, DOD, FHA) & private developers



Licensing Boards

Licensing and prequalification boards



GC Prequal of Subs

Subcontractor default insurance (SDI)



Owners & Investors

Contractor stockholders, members and investors



What do Contractor statement users need from the CPA, CFO and Controller?

- **Honesty and integrity**
- **Timeliness** – 60 to 90-day year-end reporting deadline; the “pandemic delay mentality” is no longer acceptable
- Internal financial reporting within **25 days**, including contract WIP
- Competency and understanding of **construction accounting GAAP** and contract WIP
- Presentation of financial statements with adequate disclosures unique to contractors
 - *Discontinue misinterpretation of ASC 606*
- Knowledge of Section 460 and other tax laws applicable to contractors
- Understanding of the Key Performance Indicators (KPI) that users of the financial statements are measuring



Ten Most Common Causes of Contractor Failure

From the CFMA article (1986) by Robert Davidson & Danny Parrish

1

Poor bidding & estimating — not knowing the “true job cost”

2

Growing too fast

3

Catastrophic job loss — excessive single-job risk

4

contracts outside your experience, expertise or region

5

High employee turnover & an inexperienced workforce

6

Inadequate capitalization & poor cash flow

Not losing money, just ran out of cash – “I can’t make payroll!”)

7

Excessive litigation, job claims or legal/safety issues

8

Poor accounting system, job costing & financial discipline

9

Subcontractor (non bonded) or supplier failure (price / supply)

10

Undisciplined spending (Buying Dumb Stuff)



Session 2

Construction Accounting GAAP

- *Review of GAAP accounting for Contractors*
- *ASC 606 important considerations*
- *Deeper understanding of construction job costing - GAAP*



Construction Contractor GAAP Review of the Basics

ASC 606 Revenue Recognition is the only GAAP revenue-recognition method
Otherwise known as Legacy “Percentage of Completion”

1955

ARB No. 45
declared the
POC method
“preferable”

1962

APB No. 4
incorporated the
ARB 45 POC
preference

1965

AICPA issued its
first “Audits of
Construction
Contractors”
guide

1981

SOP 81-1 & the
AICPA Audit
Guide required
POC when cost
estimates are
dependable

2014

FASB issued ASC 606
(effective 2019)



ASC 606 – FASB Revenue Standard (2014, effective 2019)

Most ASC 606 revenue rules were already in SOP 81-1 – but as GAAP, the standard was taken more seriously.

What ASC 606 Changed

- Under ASC 606, many construction contracts are recognized over time using a measure of progress as control transfers
 - Cost-to-cost is a common input method when it faithfully depicts performance.
- Far less impact on contractors than was claimed
- No exceptions for revenue size or contractor specialty
- POC adjustments are more material for small contractors
- No year-end WIP? POC $\approx$ accrual – but POC is still the method

Cost-to-Cost POC Method

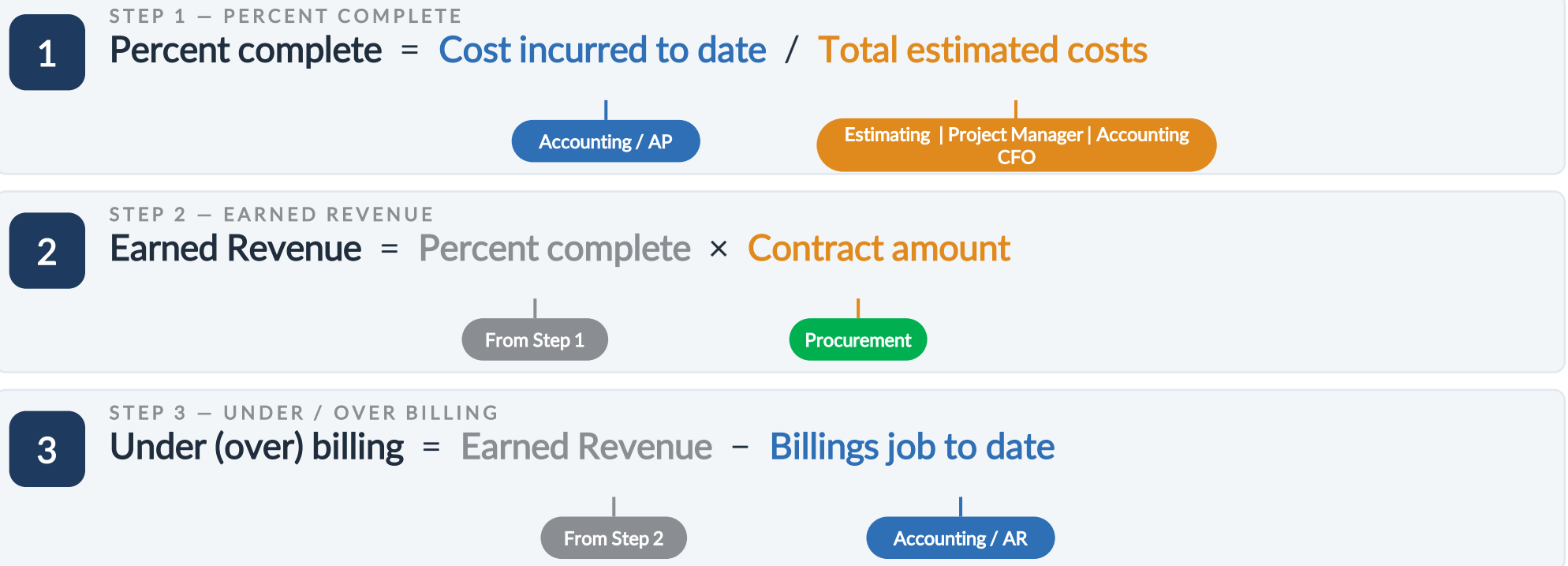
- Total job cost to date $\div$ total estimated job cost
- Required by the IRS
- Units-of-production allowed under ASC 606
 - Permits both input and output methods when they appropriately measure progress, and construction output methods may include milestones, physical progress, billable amounts, units of delivery, or units of production.
 - Which best depicts the transfer of control
- Job cost = all direct & indirect costs (excludes home-office)
 - Estimated Costs and Cost incurred need to be apples to apples
 - Uninstalled materials - Excluded from cost to cost
 - Rework excluded from cost to cost



Construction Accounting Basics

Over / Under Billing – Who makes would go round...

How each input traces back to the department that owns it:



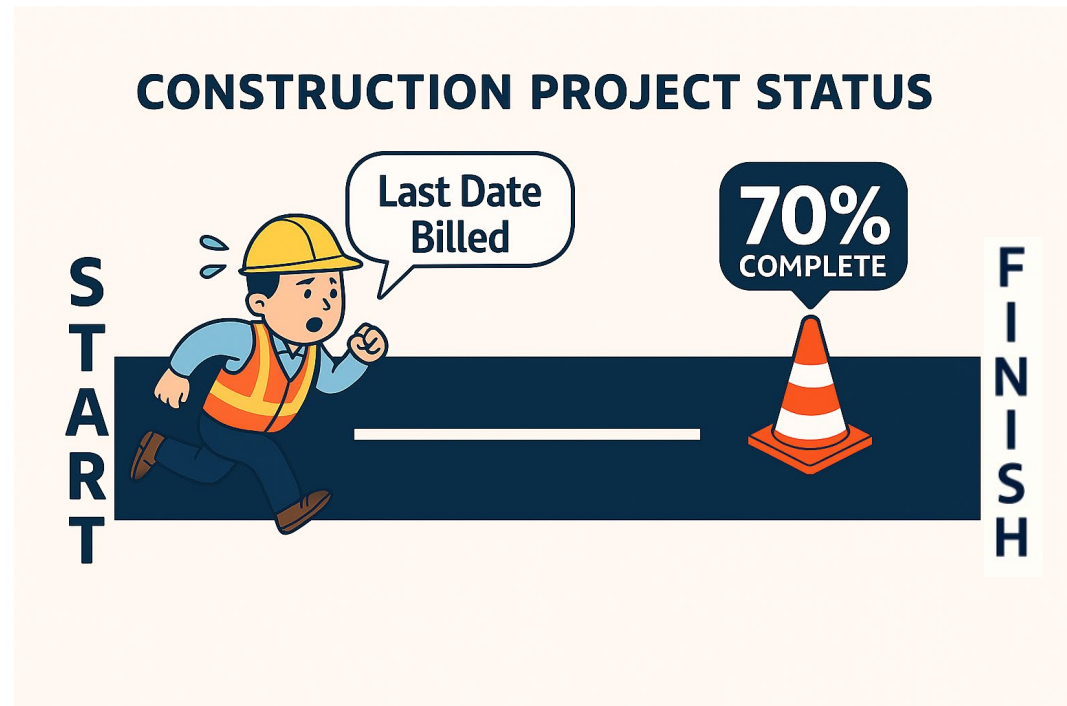


Construction Accounting Basics – Contract Asset

Underbillings - Costs in Excess of Billings on Uncompleted Contracts:

This happens when a company has **incurred more costs** (and earned more revenue) than it has billed to date. It's an **asset**, representing work performed but not yet billed.

Considered a bad asset - Ignored for bonding capacity



Underbillings — a Warning Sign

- Costs & estimated earnings in excess of billings (legacy title)
- Contract asset under ASC 606
- A/R, Retainage, Under-billings, Claims
- Often the first indication of profit fade — watch closely
- Excessive or non-existent underbillings are the #1 malpractice reporting error in construction accounting



Construction Accounting Basics – Contract Liability

Overbillings -Billings in Excess of Costs on Uncompleted Contracts:

This occurs when a company has **billed more** than the costs and profits recognized to date on a project. It's a **liability** because the company has billed for work it hasn't performed, possibly already collected the cash.



Overbillings – a Good Sign

- Overbillings are good liability
- Good contractors front-end load their billings to create cash flow
- A/P, subcontractor payables and retainage, and over-billings
- Overbillings are recorded to adjust revenue to actual based on POC % – deferred revenue recognition
- Also reserve for completion costs, punch lists, LDs, subcontractor costs, warranty, and profit fade





Contract WIP: Best Practices – Job Losses

Use a Zero-Profit Estimate when...

- Jobs carry uncertain profit estimates or high risk
- Start-up phase under 10% complete (IRS method) – up to 20% for large contractors
- Significant bid spread or high-risk contracts with uncertainties
- Method must be consistently applied

Job Losses — Recognize Now

- A probable job loss is 100% recognized in the period – regardless of % complete
- The IRS limits loss recognition to the cost-to-cost POC amount

Under ASC 605-35-25-45 through 25-46, as retained for contract loss provisions in the revenue model, if current estimates of the ASC 606 transaction price and total contract costs indicate an anticipated loss, the entire expected loss is recognized in the period in which the loss becomes evident, regardless of the percentage complete or revenue recognition method used.



Sample Construction Company

Revenue Recognition Illustration

POC is the only allowable method

	#	Accrual Method (Not an allowable method)	Formula	POC – 10% GP Estimate	POC – 6% GP Estimate	Completed Contract Method (Not an allowable method)
Contract amount – including COs	1	\$20,000,000		\$20,000,000	\$20,000,000	\$20,000,000
Estimated total job cost at completion	2	\$18,000,000		\$18,000,000	\$18,800,000	\$18,000,000
Estimated gross profit at completion	3	\$2,000,000	$[1 - 2]$	\$2,000,000	\$1,200,000	\$2,000,000
Gross profit % of revenue		10.0%		10.0%	6.0%	10.0%
Gross margin % of cost		11.1%		11.1%	6.4%	11.1%
Job cost to date	4	\$9,000,000		\$9,000,000	\$9,000,000	\$9,000,000
Cost-to-cost percentage of completion	5	50.0%	$[4 \div 2]$	50.0%	47.9%	50.0%
Billings to date	6	\$11,000,000		\$11,000,000	\$11,000,000	\$11,000,000
Revenue recognized to date	7	\$11,000,000	$[1 \times 5]$	\$10,000,000	\$9,574,468	\$11,000,000
Overbilling (underbilling)	8	\$–	$[6 - 7]$	\$1,000,000	\$1,425,532	\$–
Gross profit to date	9	\$2,000,000	$[7 - 4]$	\$1,000,000	\$574,468	\$0
Backlog revenue	10	\$9,000,000	$[1 - 7]$	\$10,000,000	\$10,425,532	\$20,000,000
Backlog gross profit	11	\$–	$[3 - 9]$	\$1,000,000	\$625,532	\$2,000,000
Revenue reporting error (if 6% GP)		\$1,425,532		\$425,532	\$–	\$(574,468)



Presentation of Contract Retentions – December 31, 2025

Under ASC 606-10-45-1, contract assets and liabilities are presented as a single net position by contract – including retentions.

The Rule – Net by Contract (ASC 606)

- Contracts in progress often carry several contract assets and liabilities
- Components: contract asset – underbilling; contract asset – retentions receivable; contract liability – overbilling
- When a contract has both an asset and a liability, present a single net amount – not separately
- Retentions receivable and under/overbillings on one contract combine into that net position

What Changed – FASB Staff Paper (Apr 1, 2024)

- PCC explored gross presentation at the contract level, then decided not to propose a change
- FASB Staff Educational Paper: present net by contract; added detail is voluntary
- Show more detail on the face of the statement or in disclosures
- **Two options – Exhibit A: Parenthetical Disclosure; Exhibit B: Disaggregation as Subtotals**

Key Reclass Rule – Conditional Retentions

- Reclass only enough conditional retention to bring a contract's overbilling to zero
- Excess conditional retention over the overbilling stays as a net contract asset
- Never report a “negative” net contract liability on any contract
- Disclose the reclass in a footnote (conditional retentions moved from assets to offset liabilities)



Retainage

Legacy Account Titles Are Still Allowed

- Legacy balance sheet and income statement titles don't have to change — ASC 606 applies to every industry, not just construction
- The generic terms “contract assets” and “contract liabilities” were written to cover all legacy account descriptions
- ASC 606-10-45-5 permits any alternative or “legacy” description appropriate to the industry — under-billings (costs & estimated earnings in excess of billings) and over-billings (billings in excess of costs & estimated earnings) may continue
- If you use an alternative name for a contract asset, disclose enough for readers to tell receivables apart from contract assets

Retainage — Don't Net It

- Retainage should never be combined or netted with other contract assets and liabilities — netting is not a best practice — Keep it separate as long as is permitted by GAAP.
- If retainage isn't primarily a matter of “passage of time,” a more serious problem exists
 - In most cases retainage under ASC 606 will be presented as a **“Contract Asset”**
- If it's subject to risk, discount it, write it off, or disclose it separately — not buried in a net figure
- The surety industry has raised serious concerns about netting assets and inconsistent terminology — **May conflict with what GAAP requires.**



Illustrative FS Disclosure – Exhibits A & B

Illustrative balance sheet excerpts from the FASB Staff Educational Paper—Topic 606 (page 4).

EXHIBIT A - Parenthetical Disclosure of Retainage Excerpt from Consolidated Balance Sheets December 31, 20X1 and 20X0		
	20X1	20X0
Assets		
Current Assets		
Contract assets, including conditional retainage of \$[] and \$[] at December 31, 20X1 and 20X0, respectively ¹	XXX	XXX
Total Current Assets	\$ X,XXX	\$ X,XXX
Liabilities and Stockholders' Equity		
Current Liabilities		
Contract liabilities, net of conditional retainage of \$[] and \$[] at December 31, 20X1 and 20X0, respectively ¹	XXX	XXX
Total Current Liabilities	\$ X,XXX	\$ X,XXX

EXHIBIT B - Disaggregation of Contract Balances as Subtotals Excerpt from Consolidated Balance Sheets December 31, 20X1 and 20X0		
	20X1	20X0
Assets		
Current Assets		
Contract assets ¹		
Revenue in excess of billings	XXX	XXX
Conditional retainage	XXX	XXX
Total contract assets	XXX	XXX
Total Current Assets	\$ X,XXX	\$ X,XXX
Liabilities and Stockholders' Equity		
Current Liabilities		
Contract liabilities ¹		
Billings in excess of revenue	XXX	XXX
Less: conditional retainage	(XXX)	(XXX)
Total contract liabilities	XXX	XXX
Total Current Liabilities	\$ X,XXX	\$ X,XXX

PREFERRED

Why Exhibit B for users of the financial statements

- Preserves the integrity of the WIP schedule supplement — no reconciliation required
- Gross retainage is visible on the face of the financial statements
- Contract assets and liabilities are disaggregated as subtotals, not buried in a parenthetical



Comparison: Proportionate vs. Equity vs. Full Consolidation

	Proportionate Consolidation	Equity Method	Full Consolidation
Balance Sheet	Share of each asset/liability	One-line "Investment"	100% of all assets/liabilities
Income Statement	Share of each revenue/expense	One-line "Share of Profit"	100% of all revenue/expenses
Control Level	Joint Control	Significant Influence (20-50%)	Majority Control (>50%)
Non-Controlling Interest	Not reported	Not reported	Reported as a separate line

	Equity Method (Standard)	Expanded Equity (Hybrid)	Proportionate Consolidation
Income Statement	Single line (Net Profit)	Grossed up line-by-line	Grossed up line-by-line
Balance Sheet	Single line (Asset)	Single line (Asset)	Grossed up line-by-line
Operational Detail	Low	High	High
Financial Leverage	Hidden	Hidden	Transparent



Accounting for Joint Ventures Under US GAAP



Start with ASC 810

Joint ventures must be evaluated Variable Interest Entity Workaid - Multi-Entity



If No Control

Default to Proportionate Consolidation (**Preferred**) or Equity Method (**Less usable to Surety**)



Typical Accounting Outcome

Most noncontrolled JVs are accounted for under the equity method (ASC 323), resulting in a single-line investment and earnings presentation.



When Alternatives Apply – Limited Gross-Up Election

In specific construction scenarios, certain JVs may qualify for ability to “gross-up” when strict criteria under ASC 810-10-45-14 are met. See also AICPA Audit and Accounting Guide – Construction Contractors Chapter 3, Par 3.21



Balance Sheet GAAP – Working Capital

Working capital target = a percentage of annual revenue:

10%

Standard starting point

15–20%

Labor-intensive contractors

~5%

GCs that subcontract most work

Why Working Capital Matters

- Working capital & equity are the basis for surety and prequalification credit
- Cash is required to fund contract WIP
 - Understand your Cash GAP
- Working capital is supplemented by:
 - Front-end loading overbilling (Mobilization, general conditions)
 - Bank line of credit

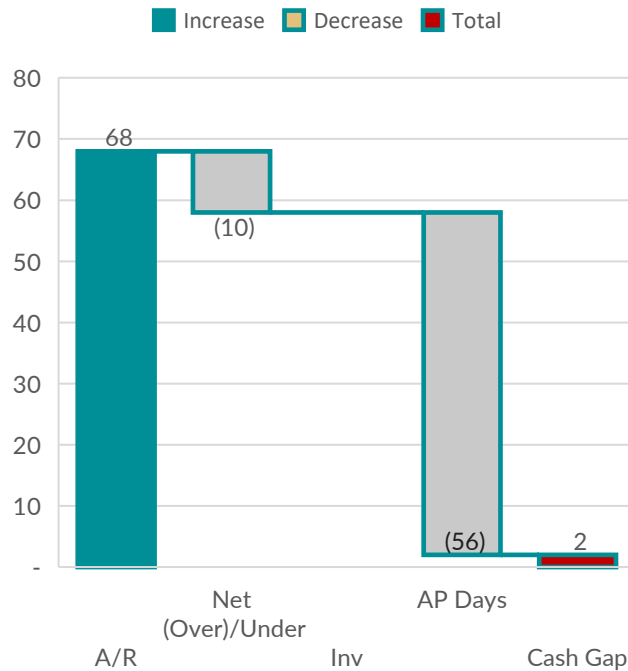


Cash Gap – Industry

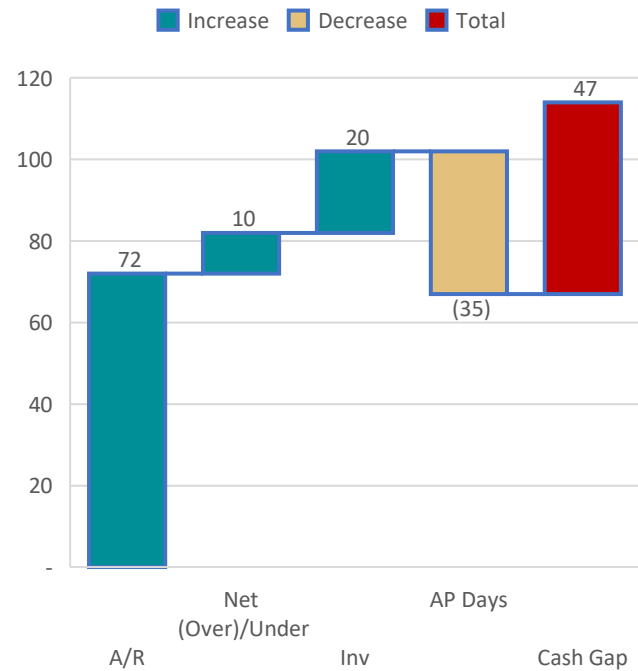
Cash gap is the number of days between the day you pay your vendors and the day your customer pays you.



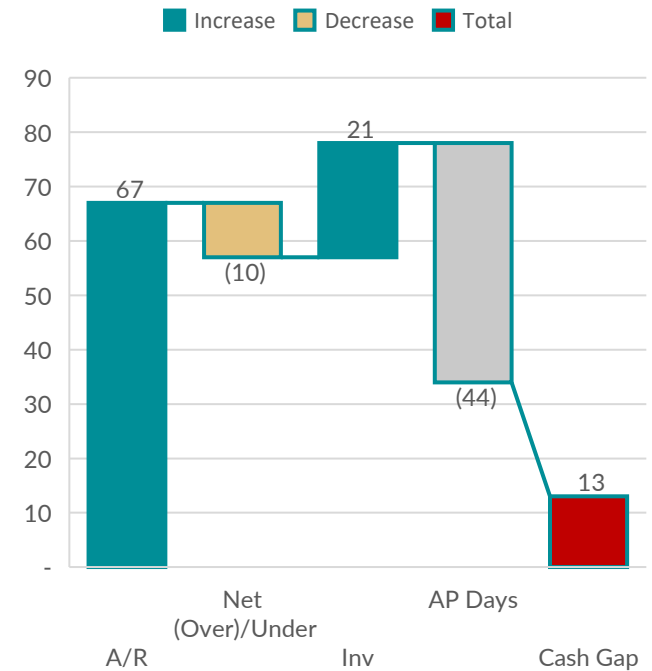
Cash Gap - General Contractor/CM



Cash Gap - Speciality Trade



Cash Gap - Heavy Highway





GAAP Balance Sheet Classification — Apply Skepticism

Apply skepticism to every contractor balance-sheet line:

Cash	Restricted for retainage or insurance reserves
Contract receivables	Disaggregation required
Retainage	Completed jobs and WIP jobs
Claims & unapproved COs	Only to the extent of costs incurred
Related-party A/R	Owner notes receivable — Intent and ability to repay? Review collateral & cash flow
Under-billings	#1 reporting error
Inventories	Should not include job-cost materials
Bank lines of credit	Practical: Viewing a LOC outstanding balance as “long-term” GAAP: Some legal requirements allow LT presentation: Interest only and no principal payment due within a year.



GAAP Balance Sheet Classification – Apply Skepticism (Continued)

Apply skepticism to every contractor balance-sheet line:

Insurance	Self-insured deductibles and reserves
Over billings	Reserve for completion costs and front-end loading deferral
Losses	Loss contract accrual, liquidated damages, or claims payable – Review footnote details
Off balance sheet liabilities	Flow-thru entities – current tax distributions and deferred taxes – GAAP requires presentation of significant subsequent event...i.e. Distribution for taxes after year end



Most Common Contractor Reporting Issues

Pit falls and best in class reporting and disclosures for bonding, bank, and surety.

Revenue & Billing Red Flags

- Income not on the cost-to-cost POC method
- Excessive under-billings — “dumb or dishonest?”
- Under-billings hiding claims or unapproved change orders
- Inadequate over-billing reserves (profit fade, sub failure)
- WIP losses not recognized 100% at the reporting date

Disclosure & Reporting Gaps

- BEST IN CLASS – NOT Required by GAAP
Common industry practice to include and users of the financial statements may demand the following:
 - Disclosure (backlog, claims, fade, retainage)
 - Disclosure of Pass-through tax distributions not disclosed or accrued
 - Supplemental disclosure contract schedules (completed, WIP, reconciliation)
- Reporting Gaps
 - Indirect costs not allocated — inflated G&A overhead
 - Qualified/disclaimed opinion on WIP — “mathematical malpractice”



ASC 606 Revenue Recognition – A Final Review

“The impact of the new revenue recognition standards was blown out of proportion by CPAs that knew very little about construction – it was more dud than big bang.”

Still Required (or Preferred) Under ASC 606

- Cost-to-cost percentage of completion still required
- Full-absorption job cost of all direct & indirect costs
- Loss-contract recognition – 100% in the year the loss is known
- Segmenting & combining contracts when appropriate (improved by ASC 606)
- Gross-profit fade / gain disclosure (SOP 94-6)
- Expensing of pre-contract services - the big issue for multi-national contractors
- Uninstalled “generic” materials excluded from POC profit
- “Variable Consideration” - Conservative claim & unapproved change-order recognition
- Disaggregation of revenue reporting (a best practice mandated by 606)



ASC 606 Distinct Performance Obligations – Combine or Separate?

The big question under ASC 606: is this one contract, or several?

FACT: Most construction contracts are ONE performance obligation, earned over time

Keep It as One Obligation When... (Don't Separate)

- You're delivering one finished result – the trades combine into a single building, not separate products
- The owner can't take or use the phases on their own – they're buying the whole job
- The owner pays as the work progresses, through regular progress billings
- Ownership of the work passes to the owner as it's built and paid for

Bottom line: very few contractors truly have separate obligations



When to Account for Separate Performance Obligations

Sometimes a job really is more than one promise — here's when to split it out.

Account for Separately Performance Obligations When...

- A performance obligation is truly separate — the owner could use or buy it on its own (a standalone building or optional phase).
- You sell an extended service warranty — that's its own promise (a basic fix-defects warranty is not).
- An added phase or expansion gives the owner something extra — account for it on its own.
- Change orders — treat each one as:
 - When the added work stands alone (distinct) and is priced on its own — **contract**.
 - When the work is commingled to existing project — **Cumulative catch up method** is used
 - CO replaces the original contract - **Close old project and set up new project**.
- Claims and unapproved change orders — count them in revenue only to the extent you're confident you'll collect.
- Pre-contract services, if collection is uncertain or delayed beyond the “near term” (i.e. 90-120 days)
- Recognize the separate project over time as the work gets done, just like the main job.
- Measure progress with cost-to-cost (costs so far vs. total expected).
- Disclose the details, especially anything affecting funding or collections.



Enhanced Disclosures Under ASC 606

1

Voluntary disclosure driven by Surety requests:

Surety's expect that the financial statements must include a reconciliation of the WIP and completed contract schedule to the statement of income and backlog disclosures.

2

Contract type — fixed price, lump sum, cost-plus, unit price

3

Revenue disaggregation by owner, location and type of work

4

Onerous provisions — completion dates, labor, environmental, safety, warranties

5

Significant estimate changes (fade / gain) with WIP reconciliation - ASC 250 - Requires disclosure of the effect of revisions in estimates if the effect is material, which includes revisions in estimates of the percentage of completion.

No prior period adjustment is permitted for change of estimate

Note: This is one of the most “ignored” required disclosures in contractor financial reports.

6

Full-absorption costing; G&A remains period costs

- Idle equipment costs & unsigned labor, and similar unallocated costs reported separately



Other issues emphasized and improved by the new Revenue Recognition Standards

Golden rule: “most probable, with a bias toward conservative recognition”

Refinements Emphasized by the ASC 606 Revenue Recognition

Variable Consideration -

- Delay recognition until collection is certain
 - Revenue recognition of early-completion or work-quality bonuses
 - Adjustment for liquidated damages or contract penalties
 - Bonuses & penalties based on the “most probable outcome” test (conservative bias)

Contract Liability – Considering EAC

- Over-billing should not be created for front-end loading alone
- Include an allowance for completion (punch list) costs, collectability, warranties, etc.

Contract Asset

- Pre-contract costs deferred as under-billings only if the contract is probable
- Review status after the balance-sheet date but before the audit report (subsequent events)



Construction GAAP Job Costing Principles & Best Practices

Job costs = every cost directly or indirectly tied to the construction (production) activity

“Full-absorption” job costing is a best practice that delivers:

True cost of performance

The all-inclusive “true cost” of every job

Accurate WIP reporting

Contract-to-date actual costs for reliable WIP

The POC numerator

Feeds the cost-to-cost % completion calculation

Budget consistency

Same cost basis as the total estimated budget (denominator)

Direct costs should be expensed “directly” to jobs in the period incurred



Allocating Indirect Costs to Jobs

Indirect costs must be allocated to job costs per GAAP
(2016 - 2.20 of the AICPA Audit & Accounting Guide – Construction Contractors)

Systematic

A methodical, written allocation control procedure

Rational

The method is logical and makes sense

Note: contract-revenue % is usually NOT rational or accurate

Consistent

The same method applied to all jobs and all periods

Misallocation Distorts the Financials

- Indirect job costs hidden in G&A – gross profit and G&A both overstated
- Revenue recognition distorted by inconsistent indirect job costing
- G&A are period costs under GAAP; period costs are not allocated to jobs



G&A Allocation – Tax Effects & Pre-Contract Costs

Allocating G&A changes the tax POC % and applies in several special cases

When G&A IS Allocated

- IRS Code Section 460 requires allocation of G&A to long-term contracts unless exempt (home contract, non-long term, < \$29 M, etc.)
 - Can significantly affect the lookback interest calculation
 - G & A allocated to the costs to date (numerator) will change the tax percentage of completion if total estimated costs (denominator) are not allocated the same percentage
- Required on some government contracts under FAR & CAS billing
- Some contractors allocate G&A internally for job bonuses & change orders - **Allocation should be reversed for external reporting.**

Pre-Contract Costs (AAG-CON 2.153)

Incurred for a specific contract: engineering, design, core drilling, inspection, estimating, proposal

- Capitalize at year-end only if the contract is “probable in the near term” and “recoverable by the contract”
 - Selling costs are not capitalized if you would have incurred the cost whether the contract was awarded or not – **period cost**
- 90–120 days is the standard “near term” definition



Construction Job Costing Ledger Accounts

All contractors are different. Job costing, including indirect cost allocations, for general contractors (GCs), heavy-highway contractors, specialty subcontractors, home builders, etc. will vary – requiring judgment.

Direct Costs

- Field labor & direct labor burden
- Materials (component of the completed job)
- Subcontractors
- Equipment – direct
- Supplies used up on the job
- General conditions – direct

Indirect Costs

- Project management
- Indirect labor not on the jobsite (e.g., warehouse)
- Equipment (Contractor owned or Leased)
- Technology - indirect
- Labor Burden and HR – indirect
- Insurance
- Subcontractor management



Job Costing GAAP and Allocation Best Practices

Internal Control Procedures & Best Practices | **Direct Job Costs**

Direct Job Costs	Control Procedure / Method	Frequency
Labor		
Field Labor	Daily time report	Daily
Supervisory Labor - jobsite	Daily time report	Daily
Labor Burden (FICA, SUTA, FUTA, WC)	Payroll system	Daily
Materials	Purchase order, invoice	
Transportation and hauling (external)	Invoice, hauling ticket	Daily
Subcontractors	Subcontract agreement, pay app	Monthly
Equipment (external)	Rental invoice	Monthly
Supplies	Invoice	Monthly
General Conditions & Mobilization		
Pre-contract costs (engineering, design, inspection, etc.)	Time sheets, invoices, expense report	Monthly
Job trailer (external)	Purchase order, invoice	Monthly
Surety bond	Invoice	One time
Subcontractor default insurance	Indirect allocation (see below)	Monthly
Builder's risk insurance	Purchase order, invoice	One time
Technology (directly related to job)	Purchase order, invoice	Monthly
Other	Purchase order, invoice	Monthly



Indirect Job Cost Allocations

Internal Control Procedures & Best Practices | Indirect Job Costs

Indirect Job Costs	Control Procedure / Method	Frequency
Project Management		
Project manager	Time sheet or stipulated rate	Daily
Superintendent	Time sheet or stipulated rate	Daily
Subcontractor administrator	Time sheet	Daily
Indirect Labor & HR		
Idle, training, safety, vacation, sick, etc.	Labor burden percentage	Hourly
WC Insurance (if not included in payroll)	Labor burden percentage	Hourly
Warehouse and transportation labor	Labor burden percentage	Hourly
HR department, recruiting, etc.	Labor burden percentage	Hourly
Field payroll processing and accounting	Labor burden percentage	Hourly
Insurance		
General liability insurance	Labor or revenue percentage - per policy	Monthly
Umbrella insurance	Labor or revenue percentage - per policy	Monthly



Indirect Job Cost Allocations

Internal Control Procedures & Best Practices | Indirect Job Costs (Continued)

Indirect Job Costs (Continued)	Control Procedure / Method	Frequency
Bidding and Estimating Department		
Estimator labor & burden	Job cost percentage	Monthly
Technology - bidding software	Job cost percentage	Monthly
Technology		
Job management software (B2W, Procore, CPM, etc.)	Job cost percentage	Monthly
Cameras, I-pads, field reporting, etc.	Job cost percentage	Monthly
Subcontractor Management		
Subcontractor default insurance	Subcontractor percentage	Monthly
Subcontractor administrator (prequal, pay app, liens)	Subcontractor percentage	Monthly
Equipment (internal - contractor owned)		
Equipment depreciation	Hourly rental rate - standard cost	Hourly
Repairs and maintenance	Hourly rental rate - standard cost	Hourly
Shop and parts expenses	Hourly rental rate - standard cost	Hourly
Mechanic labor	Hourly rental rate - standard cost	Hourly
Equipment hauling	Hauling ticket	Daily
Fuel and lubrication	Fuel system - or hourly "wet" rate	Daily/Hourly



Other Indirect Job Costing Issues

True-Up of Unallocated Costs

- Standard costs reviewed quarterly and adjusted
- Reallocate variance quarterly or annually

Idle Equipment Costs

- Exclude winter shutdown and normal idle time
- Compare utilization to normal budgeted hours
- Report as a direct cost or separate line — never G&A

Cost-Plus Contracts

- Stipulated vs. actual indirect cost rates
- Equipment rates, burden rates, project management, etc.

Change Orders & Claims

- Costs attributable to unapproved change orders
- Costs attributable to contract claims
- Home office overhead – Eichleay formula



Session 3

Contract Schedules and Analytics

- *Contract WIP and completed contract analytics*
- *Estimating and job budgets; fade/gain*
- *Contract WIP disclosures and schedules*
- *Reporting Performance Obligations on Contract WIP*



Contract Schedule Analytics

Core analytic exhibits used to assess contract schedules:



Bid Spread Analysis (Exhibit E)

First line of risk assessment



Front-End Loading to Overbilling Analysis (Exhibit F)

Tests reasonableness of overbilling deferral



Phase-Code Job Cost: Bid-to-Actual (Exhibit G)

Critical job-costing & estimating internal control



Contract Gain / Fade Trend Analysis (Exhibit O)

Key internal control procedure — required for IRS lookback



Contract WIP — Cash Basis (Negative Cash Flow) (Exhibit P)

Negative cash flow is a profit fade indicator



Contract Cost Shifting Illustration (Exhibit N)

Key internal control to test job costs



Contract Schedule Reporting



Warranty (Exhibit H)

Separate performance obligation



Change Order (Exhibit I)

Separate performance obligation



Contract WIP Claim Reporting (Exhibit J)

Segmentation



Contract WIP Report — Homebuilder (Exhibit L)



Contract WIP Reporting — Joint Venture Contracts (Exhibit M)

Contract Schedules – Contract WIP, Completed Contracts, Reconciliation

Contract schedules rank #1 disclosure for sureties (NASBP survey)

#1

Surety-ranked disclosure (NASBP)

**Schedules:
WIP, completed &
reconciliation**

Why the Schedules Matter

- Required as supplemental information in the annual audit report by users of the FS, but NOT required by GAAP.
- **Short-form** version still permitted – **Generally used for customers**
- Access to **long form** should be limited – **Contractor Decision**
- Drive revenue, cost & gross-profit recognition
- Source of under-billings (contract assets) and over-billings (contract liabilities)

No qualified or disclaimer opinion on the contract schedules unless applied to the entire financial statement – otherwise it is “mathematical malpractice.”



Contract Schedule Analytical Procedures

Flag High-Risk Contracts

- Significant bid spreads
- work type, owner or market area
- Larger contract size or multi-year duration
- Design/build, lump-sum or GMP (unit-price & cost-plus = less risk)
- Self-performed vs. subcontracted (bonded or non-bonded)
- Under-billings, claims or schedule delays

Profit Fade / Gain Analysis

- Review historical completed-contract gross profit (Exhibit D)
- Run a 5-year profit fade/gain analysis
- Compare to WIP gross profit estimates with historical analysis
- Sort by type of work, division, customer and project manager
- Apply added scrutiny and skepticism to the riskiest jobs
- Prepare contract risk analysis to calculate potential gross profit fade – **Exhibits A – B – C**
 - Convert contract gross profit estimates to historical percentages and compare to current estimates
 - Compared reported gross margin and compare to margin on open projects
 - **#1 procedure to detect overstatement of revenue and profit**

CFOs, CPA audits/reviews MUST analyze the historical profit trend analysis



Construction Company, Inc. — 5-Year Trend Analysis

Historical Completed Contract Gross Profit % • Exhibit D

General Contractor	2020	2021	2022	2023	2024	Average
Healthcare division	4.85%	3.80%	3.93%	5.40%	5.89%	4.77%
School & Education	3.33%	2.45%	2.77%	3.10%	3.50%	3.03%
Multi-family	2.66%	2.98%	2.99%	3.00%	3.20%	2.97%
Distribution & warehouse	6.40%	5.50%	4.70%	6.30%	6.90%	5.96%
All jobs	4.31%	3.68%	3.60%	4.45%	4.87%	4.18%
Bridge Contractor	2020	2021	2022	2023	2024	Average
Municipal (County/City)	8.30%	6.90%	10.30%	10.60%	11.00%	9.42%
DOT Prime	10.69%	8.50%	11.20%	12.35%	12.44%	11.04%
DOT Sub	8.22%	7.20%	9.00%	9.62%	10.12%	8.83%
Private commercial	9.90%	8.23%	9.45%	11.93%	12.22%	10.35%
All jobs	9.28%	7.71%	9.99%	11.13%	11.45%	9.91%
Asphalt Contractor	2020	2021	2022	2023	2024	Average
Private commercial	14.00%	13.80%	13.93%	14.30%	13.75%	13.96%
Municipal (county/city)	9.80%	7.26%	10.60%	7.60%	6.90%	8.43%
DOT Prime	11.20%	12.60%	15.35%	12.90%	11.78%	12.77%
DOT Sub	9.30%	10.22%	11.30%	9.80%	9.72%	10.07%
All jobs	11.08%	10.97%	12.80%	11.15%	10.54%	11.31%
FOB Plant Mix Sales						
Private	26.66%	20.90%	25.36%	28.50%	30.02%	26.29%
Municipal	17.50%	16.66%	18.30%	18.50%	18.88%	17.97%



Contract Schedules

Davidson Construction Company, Inc. | Contract Schedules – WIP | For the Period Ended 12/31/25 | **Exhibit A**

Uncompleted Contract Schedule – Work in Progress

Job #	Description / Job / Location	(1) Contract Amount	(2) Total Est. Cost	(3) Est. Gross Profit	(4) GP %	(5) Billings to Date	(6) Revenue Recog.	(7) Accrued Loss	(8) Cost to Date	(9) GP to Date	(10) Under- billing	(11) Over- billing	(12) Cost-to- Cost %	(13) Est. Cost to Compl.	(14) Backlog GP
13022	Front end loaded job Dolly Partin Arena – Nashville, TN	20,000,000	16,000,000	4,000,000	20.00%	11,000,000	10,000,000	0	8,000,000	2,000,000	0	1,000,000	50.00%	8,000,000	2,000,000
13032	Under-billed job Shula's Steakhouse – Miami, FL	6,000,000	5,000,000	1,000,000	16.67%	4,600,000	4,800,000	0	4,000,000	800,000	200,000	0	80.00%	1,000,000	200,000
14002	Zero billed job Goldmine – Anchorage, AK	10,000,000	9,200,000	800,000	8.00%	0	978,261	0	900,000	78,261	978,261	0	9.78%	8,300,000	721,739
14004	Loss Job Vanderbilt Stadium – Nashville, TN	5,000,000	5,500,000	(500,000)	10.00%	4,000,000	3,250,000	500,000	3,750,000	(500,000)	0	250,000	68.18%	1,750,000	0
14007	job* CMT Studios – Nashville, TN	1,000,000	850,000	150,000	15.00%	300,000	111,765	0	95,000	16,765	0	188,235	11.18%	755,000	133,235
15001	Davidson-Acme Joint Venture Bill Gates Bridge – Seattle, WA	80,000,000	73,000,000	7,000,000	8.75%	35,000,000	31,561,644	0	28,800,000	2,761,644	0	3,438,356	39.45%	44,200,000	4,238,356
	Less 40% attributable to Acme	(32,000,000)	(29,200,000)	(2,800,000)		(14,000,000)	(12,624,658)	0	(11,520,000)	(1,104,658)	0	(1,375,342)		(17,680,000)	(1,695,342)
	JV subtotal – 60% owned	48,000,000	43,800,000	4,200,000	8.75%	21,000,000	18,936,986	0	17,280,000	1,656,986	0	2,063,014		26,520,000	2,543,014
	Total Uncompleted Contracts	90,000,000	80,350,000	9,650,000	10.72%	40,900,000	38,077,012	500,000	34,025,000	4,052,012	1,178,261	3,501,249		46,325,000	5,597,988
	Net overbilling											2,322,988			

Completed Contract Schedule – 12/31/25

Job #	Description / Job / Location	Final Revenue	Total Cost	Gross Profit (Loss)	GP %
13025	Completed job #1 Taylor Swift Theater – Nashville, TN	20,000,000	18,300,000	1,700,000	8.50%
13035	Completed job #2 Marino's Steakhouse – Miami, FL	25,000,000	25,200,000	(200,000)	-0.80%
14001	Completed job #3* Air Jordan Arena – Chicago, IL	17,000,000	15,691,000	1,309,000	7.70%
14005	Completed job #4 Tide Pizza – Tuscaloosa, AL	3,000,000	2,750,000	250,000	8.33%
	Total Completed Contracts	65,000,000	61,941,000	3,059,000	4.71%

* Designates cost-plus contracts. All other contracts are lump sum.

Reconciliation of Contracts to Statement of Income

Reconciliation to Statement of Income – 12/31/25	Revenue Recognized	Total Cost	Gross Profit (Loss)	GP %
Completed contracts at 12/31/25 (job-to-date)	65,000,000	61,941,000	3,059,000	4.71%
Uncompleted contracts at 12/31/25 (job-to-date)	38,077,012	34,025,000	4,052,012	10.64%
Idle equipment costs – unallocated (Note 11)		400,000	(400,000)	
Subtotal	103,077,012	96,366,000	6,711,012	
Less revenue and cost recognized through 12/31/24	(19,293,609)	(17,881,489)	(1,412,120)	7.32%
Statement of Income – FYE 12/31/25	83,783,403	78,484,511	5,298,892	6.32%



Contract Schedule – Adjusted to Historical or Revised Gross Profit %

Davidson Construction Company, Inc. | Adjusted to Historical or Revised Gross Profit % | For the Period Ended 12/31/25 | Exhibit B

Uncompleted Contract Schedule – Work in Progress															
Job #	Description / Job / Location	(1) Contract Amount	(2) Total Est. Cost	(3) Est. Gross Profit	(4) Revised GP %	(5) Billings to Date	(6) Revenue Recog.	(7) Accrued Loss	(8) Cost to Date	(9) GP to Date	(10) Under- billing	(11) Over- billing	(12) Cost-to- Cost %	(13) Est. Cost to Compl.	(14) Backlog GP
13022	Front end loaded job Dolly Partin Arena – Nashville, TN	20,000,000	18,000,000	2,000,000	10.00%	11,000,000	8,888,889	0	8,000,000	888,889	0	2,111,111	44.44%	10,000,000	1,111,111
13032	Under-billed job Shula's Steakhouse – Miami, FL	6,000,000	5,400,000	600,000	10.00%	4,600,000	4,444,444	0	4,000,000	444,444	0	155,556	74.07%	1,400,000	155,556
14002	Zero billed job Goldmine – Anchorage, AK	10,000,000	9,500,000	500,000	5.00%	0	947,368	0	900,000	47,368	947,368	0	9.47%	8,600,000	452,632
14004	Loss Job Vanderbilt Stadium – Nashville, TN	5,000,000	5,500,000	(500,000)	10.00%	4,000,000	3,250,000	500,000	3,750,000	(500,000)	0	250,000	68.18%	1,750,000	0
14007	job* CMT Studios – Nashville, TN	1,000,000	900,000	100,000	10.00%	300,000	105,556	0	95,000	10,556	0	194,444	10.56%	805,000	89,444
15001	Davidson-Acme Joint Venture Bill Gates Bridge – Seattle, WA	80,000,000	72,000,000	8,000,000	10.00%	35,000,000	32,000,000	0	28,800,000	3,200,000	0	3,000,000	40.00%	43,200,000	4,800,000
	Less 40% attributable to Acme	(32,000,000)	(28,800,000)	(3,200,000)		(14,000,000)	(12,800,000)	0	(11,520,000)	(1,280,000)	0	(1,200,000)		(17,280,000)	(1,920,000)
	JV subtotal – 60% owned	48,000,000	43,200,000	4,800,000	10.00%	21,000,000	19,200,000	0	17,280,000	1,920,000	0	1,800,000		25,920,000	2,880,000
	Total Uncompleted Contracts	90,000,000	82,500,000	7,500,000	8.33%	40,900,000	36,836,257	500,000	34,025,000	2,811,257	947,368	4,511,111		48,475,000	4,688,743
	Net overbilling											3,563,743			

Completed Contract Schedule – 12/31/25					
Job #	Description / Job / Location	Final Revenue	Total Cost	Gross Profit (Loss)	GP %
13025	Completed job #1 Taylor Swift Theater – Nashville, TN	20,000,000	18,300,000	1,700,000	8.50%
13035	Completed job #2 Marino's Steakhouse – Miami, FL	25,000,000	25,200,000	(200,000)	-0.80%
14001	Completed job #3* Air Jordan Arena – Chicago, IL	17,000,000	15,691,000	1,309,000	7.70%
14005	Completed job #4 Tide Pizza – Tuscaloosa, AL	3,000,000	2,750,000	250,000	8.33%
	Total Completed Contracts	65,000,000	61,941,000	3,059,000	4.71%

* Designates cost-plus contracts. All other contracts are lump sum.

Reconciliation of Contracts to Statement of Income				
Reconciliation to Statement of Income – 12/31/25	Revenue Recognized	Total Cost	Gross Profit (Loss)	GP %
Completed contracts at 12/31/25 (job-to-date)	65,000,000	61,941,000	3,059,000	4.71%
Uncompleted contracts at 12/31/25 (job-to-date)	36,836,257	34,025,000	2,811,257	7.63%
Idle equipment costs – unallocated (Note 11)		400,000	(400,000)	
Subtotal	101,836,257	96,366,000	5,470,257	
Less revenue and cost recognized through 12/31/24	(19,293,609)	(17,881,489)	(1,412,120)	7.32%
Statement of Income – FYE 12/31/25	82,542,648	78,484,511	4,058,137	4.92%



Contract Risk Analysis Worksheet

Davidson Construction Company | Estimated vs. Historical / Revised Gross Profit | For the Period Ended December 31, 2025 | **Exhibit C**

Contract Risk Analysis — Excess (Deferred) Gross Profit									
Job #	Description / Job / Location	(1) Contract Amount	(2) Estimated GP %	(3) Historical / Revised GP %	(4) Over (Under) GP % (2-3)	(5) GP Recognized to Date	(6) GP at Hist. / Revised %	(7) Excess (Deferred) GP (5-6)	(8) % of Excess (Deferred)
13022	Front end loaded job Dolly Partin Arena — Nashville, TN	20,000,000	20.00%	10.00%	10.00%	2,000,000	888,889	1,111,111	125.00%
13032	Under-billed job Shula's Steakhouse — Miami, FL	6,000,000	16.67%	10.00%	6.67%	800,000	444,444	355,556	80.00%
14002	Zero billed job Goldmine — Anchorage, AK	10,000,000	8.00%	5.00%	3.00%	78,261	47,368	30,892	65.22%
14004	Loss Job Vanderbilt Stadium — Nashville, TN	5,000,000	-10.00%	-10.00%	0.00%	(500,000)	(500,000)	0	0.00%
14007	job* CMT Studios — Nashville, TN	1,000,000	15.00%	10.00%	5.00%	16,765	10,556	6,209	58.82%
15001	Davidson-Acme Joint Venture (60% owned) Bill Gates Bridge — Seattle, WA	48,000,000	8.75%	10.00%	-1.25%	1,656,986	1,920,000	(263,014)	-13.70%
Total Uncompleted Contracts		90,000,000	10.72%	8.33%	2.39%	4,052,012	2,811,257	1,240,755	44.14%

Impact on Working Capital & Gross Profit		
Net Impact Summary	Amount	% Basis
Net overbilling — based on estimated gross profit %	\$2,322,988	2.77%
Net overbilling — based on historical / revised gross profit %	\$3,563,743	4.32%
Net impact to working capital and gross profit (pre-tax)	\$(1,240,755)	
% of Revenue		-1.48%
% of Gross Profit		-30.62%
% of Equity (assume \$5M)		-24.82%

* Designates cost-plus contracts. All other contracts are lump sum.



Job Projections and Gain/Fade Considerations

What makes a job “high risk”?

Users of the statements will typically look for the following:



- Large underbillings
- Large overbillings
- Higher margin than average
- Lower margin than average
- Project Types
- Margin gain/fade from prior year



Job Projections and Gain/Fade Considerations

Large Underbillings

What it could mean:

- Customer has specific requirements for approving bills
- Poor cash flow management

vs.

What a Financial Statement User considers:

- Is the project in dispute – why hasn't a bill been allowed?
- Is there a loss contingency?
- Are there project management concerns?
- Are there unapproved change orders?



Job Projections and Gain/Fade Considerations

Large Overbillings

What it could mean:

- Cash flow management, billing ahead to collect sooner
- Customer wants bills submitted to capture costs in fiscal year

vs.

What a Financial Statement User considers:

- Project is delayed – why haven't costs been incurred?
- Is there a gain contingency?



Job Projections and Gain/Fade Considerations

Higher Profit than Average

What it could mean:

- Well negotiated contract
- Shared savings in contract
- Internal efficiency opportunities

vs.

What a Financial Statement User considers:

- Is the project more complicated and poses more risk to the contractor?
- Is the projected fee realistic or is it “pie in the sky”?



Job Projections and Gain/Fade Considerations

Lower Profit than Average

What it could mean:

- Larger volume contract
- Strategic contract to get more customer work or maintain relationship

vs.

What a Financial Statement User considers:

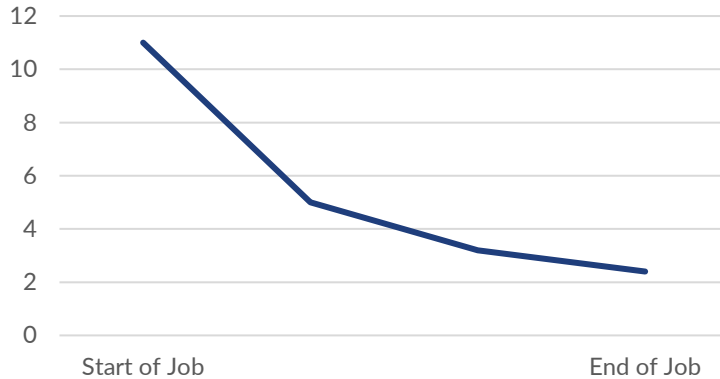
- Is the project going to have a significant gain at completion? i.e. “sandbagging”
- Is it likely the project will end up in a loss position?



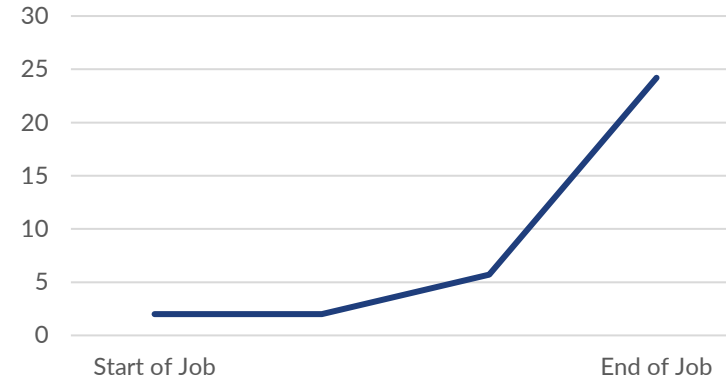
Job Projections and Gain/Fade Considerations

Analysis of profit trends over time – What is Ideal?

#1 Margin Fade



#2 Margin Gain



#3 Consistent Margin



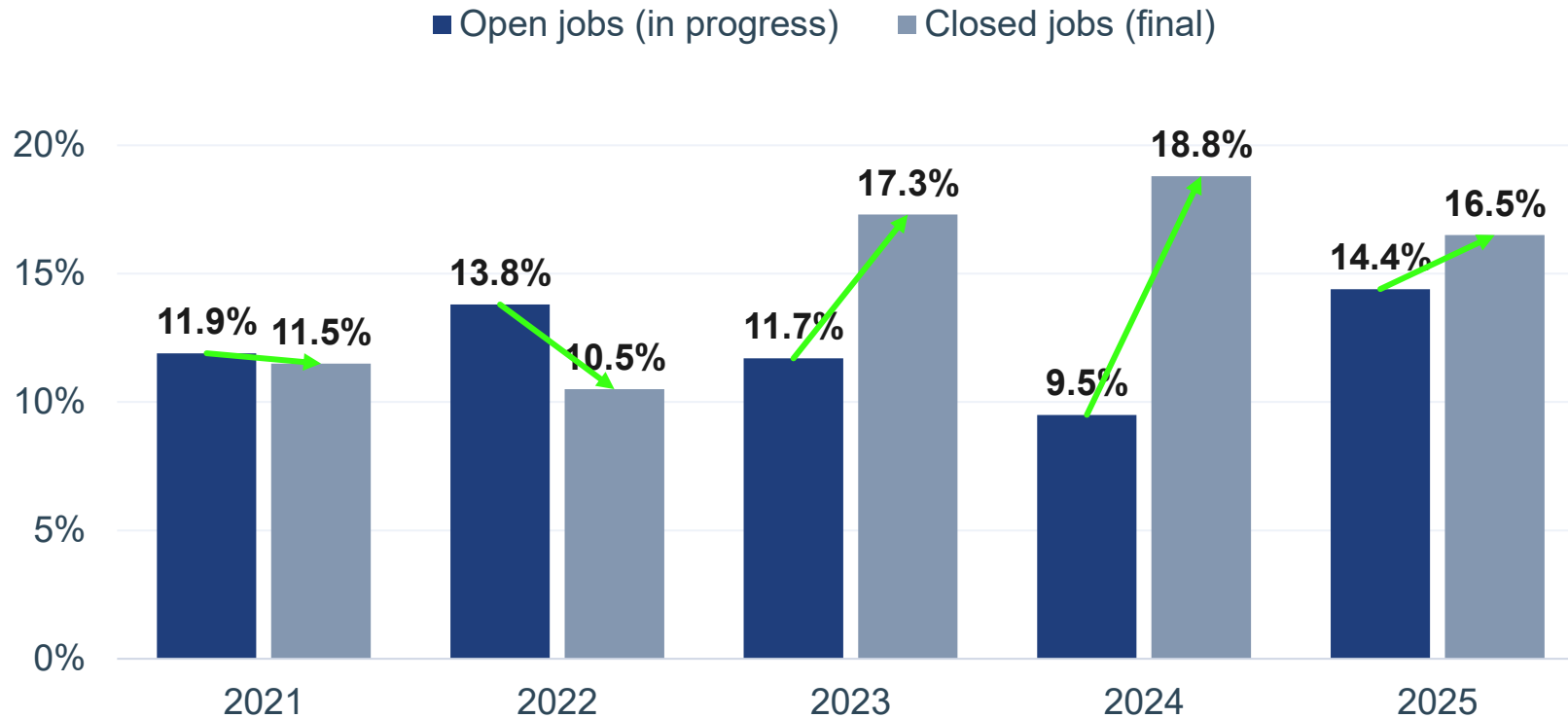
#4 Gradual Margin Gain





Open and Closed Job Estimating Trend

Gross Profit on jobs still in progress vs. jobs closed out, by year



What to look for: What is the Ideal trend? Did the Company get it right in 2025?



Contract WIP Illustration

Davidson Construction Company, Inc. · Uncompleted Contract WIP · Period Ended 12/31/2025

Job #	Description / Type / Location	[1] Adjusted Contract Amount	[2] Total Estimated Cost	[3] Estimated Gross Profit (1-2)	[4] Gross Profit % (3/1)	[5] Billings to Date	[6] Revenue Recognized (1x12)	[7] Accrued Loss	[8] Cost to Date	[9] Gross Profit to Date (6-7-8)	[10] Underbilling (6-5)	[11] Overbilling (5-6)	[12] Cost-to-Cost % Completion (8/2)	[13] Estimated Cost to Complete (2-8)	[14] Backlog WIP Gross Profit (3-9)
2201	Cumberland Bridge I-65 Nashville, TN – TDOT	20,000,000	18,000,000	2,000,000	10.00%	11,000,000	10,000,000	0	9,000,000	1,000,000	0	1,000,000	50.00%	9,000,000	1,000,000
2202	Vanderbilt Parkway Nashville, TN; Vanderbilt	10,000,000	8,000,000	2,000,000	20.00%	1,800,000	2,500,000	0	2,000,000	500,000	700,000	0	25.00%	6,000,000	1,500,000
2203	Natchez Trace culverts Leipers Fork, TN – FHWA	5,000,000	5,500,000	(500,000)	-10.00%	3,900,000	3,800,000	(500,000)	3,800,000	(500,000)	0	100,000	69.09%	1,700,000	0
8010	Taylor Swift Parkway TDOT – Hendersonville, TN	10,000,000	9,200,000	800,000	8.00%	0	1,000,000	0	920,000	80,000	1,000,000	0	10.00%	8,280,000	720,000
Total – all contracts		45,000,000	40,700,000	4,300,000	9.56%	16,700,000	17,300,000	(500,000)	15,720,000	1,080,000	1,700,000	1,100,000		24,980,000	3,220,000



Sample Construction Company — Bid Spread Analysis

Variable v. Fixed Costs • Exhibit E

	Low Bidder	2nd Bidder	Bid Spread	Spread %
Final bid tabs	\$7,000,000	\$8,000,000	\$1,000,000	12.5%
Fixed components:				
Liquid asphalt & aggregates	\$3,000,000	\$3,000,000	\$ -	
Diesel and supplies	\$500,000	\$500,000	\$ -	
Subtotal fixed bid components	\$4,500,000	\$4,600,000	\$100,000	2.2%
Variable components:				
Plant mix production	\$1,000,000	\$1,000,000	\$ -	
Trucking (haul distance)	\$500,000	\$750,000	\$250,000	
Profit and other variables	\$1,000,000	\$1,650,000	\$650,000	
Subtotal variable bid components	\$2,500,000	\$3,400,000	\$900,000	26.5%
Total bid	\$7,000,000	\$8,000,000		



Contract Gain / Fade Analysis – 5-Year

Construction Company, Inc. | 5-Year through 12/31/2024 | Estimated / Actual Gross Profit by year, with annual and contract-to-date gain / (fade) | **Exhibit O**

Job #	Contract Description	12/31/19	%	12/31/20	%	12/31/21	%	12/31/22	%	12/31/23	%	12/31/24	%	Contract-to-Date G/(F)	CTD %	Yearly 2020	Yearly 2021	Yearly 2022	Yearly 2023	Yearly 2024
WIP 12/31/19																				
101	Contract Description	1,000,000	10.0%	900,000	9.0%	850,000	8.5%	-	0.0%	-	0.0%	-	0.0%	(150,000)	-15.0%	(100,000)	(50,000)	-	-	-
102	Contract Description	800,000	10.0%	820,000	10.1%	850,000	11.0%	800,000	10.0%	-	0.0%	-	0.0%	-	0.0%	20,000	30,000	(50,000)	-	-
103	Contract Description	1,200,000	10.0%	900,000	9.0%	900,000	6.0%	950,000	6.0%	-	0.0%	-	0.0%	(250,000)	-20.8%	(300,000)	-	50,000	-	-
	Contract Description	3,000,000		2,620,000		2,600,000		1,750,000		-		-		(400,000)	-13.3%	(380,000)	(20,000)	-	-	-
WIP 12/31/20																				
201	Contract Description			1,000,000	10.0%	900,000	9.0%	850,000	8.5%	800,000	8.0%	-	0.0%	(200,000)	-20.0%	-	(100,000)	(50,000)	(50,000)	-
203	Contract Description			2,000,000	10.0%	2,400,000	9.0%	2,450,000	8.5%	2,500,000	10.0%	-	0.0%	500,000	25.0%	-	400,000	50,000	50,000	-
204	Contract Description			1,000,000	10.0%	1,100,000	9.0%	900,000	9.0%	700,000	8.0%	650,000	9.5%	(350,000)	-35.0%	-	100,000	(200,000)	(200,000)	(50,000)
	Contract Description			4,000,000		4,400,000		4,200,000		4,000,000		650,000		(50,000)	-1.3%	-	400,000	(200,000)	(200,000)	(50,000)
WIP 12/31/21																				
205	Contract Description					1,000,000	10.0%	1,000,000	9.0%	1,000,000	8.5%	1,050,000	8.0%	50,000	5.0%	-	-	-	-	50,000
206	Contract Description					280,000	10.0%	270,000	9.0%	280,000	8.5%	260,000	8.0%	(20,000)	-7.1%	-	-	(10,000)	-	(10,000)
207	Contract Description					1,000,000	10.0%	900,000	9.0%	850,000	8.5%	800,000	8.0%	(200,000)	-20.0%	-	-	-	(100,000)	(50,000)
208	Contract Description					1,000,000	10.0%	950,000	9.0%	900,000	9.0%	800,000	8.0%	(200,000)	-20.0%	-	-	(50,000)	(100,000)	(100,000)
	Contract Description					3,280,000		3,220,000		3,020,000		2,910,000		(370,000)	-11.3%	-	-	(60,000)	(200,000)	(110,000)
WIP 12/31/22																				
301	Contract Description							1,000,000	10.0%	900,000	9.0%	1,100,000	8.5%	100,000	10.0%	-	-	-	(100,000)	200,000
302	Contract Description							1,000,000	10.0%	1,100,000	9.0%	900,000	8.5%	(100,000)	-10.0%	-	-	-	100,000	(200,000)
303	Contract Description							2,000,000	10.0%	2,100,000	9.0%	2,150,000	8.5%	150,000	7.5%	-	-	-	100,000	50,000
304	Contract Description							900,000	10.0%	600,000	9.0%	450,000	8.5%	(450,000)	-50.0%	-	-	-	(300,000)	(150,000)
	Contract Description							4,900,000		4,700,000		4,600,000		(300,000)	-6.1%	-	-	-	(200,000)	(100,000)
WIP 12/31/23																				
404	Contract Description									1,000,000	10.0%	900,000	8.5%	(100,000)	-10.0%	-	-	-	-	(100,000)
405	Contract Description									2,000,000	10.0%	1,600,000	8.0%	(400,000)	-20.0%	-	-	-	-	(400,000)
406	Contract Description									1,000,000	10.0%	800,000	7.0%	(200,000)	-20.0%	-	-	-	-	(200,000)
407	Contract Description									1,600,000	10.0%	1,100,000	6.5%	(500,000)	-31.3%	-	-	-	-	(500,000)
	Contract Description									5,600,000		4,400,000		(1,200,000)	-21.4%	-	-	-	-	(1,200,000)
WIP 12/31/24																				
501	Contract Description											1,000,000	10.0%	-	0.0%	-	-	-	-	-
502	Contract Description											800,000	11.0%	-	0.0%	-	-	-	-	-
503	Contract Description											900,000	10.0%	-	0.0%	-	-	-	-	-
504	Contract Description											750,000	12.0%	-	0.0%	-	-	-	-	-
505	Contract Description											1,400,000	11.5%	-	0.0%	-	-	-	-	-
	Contract Description											4,850,000		-		-	-	-	-	-
	Total – All WIP	3,000,000		6,620,000		10,280,000		14,070,000		17,320,000		17,410,000		(2,320,000)		(380,000)	380,000	(260,000)	(600,000)	(1,460,000)
	Annual gain / (fade) %															-12.7%	5.7%	-2.5%	-4.9%	-8.4%



Homebuilder Contract Schedules

Homebuilder Company, LLC | For the Period Ended 12/31/20 | Uncompleted, completed, & reconciliation schedules | Exhibit L

Uncompleted Contract WIP Schedule

Job #	Owner / Address / Type	(1) Contract Amount	(2) Total Est. Cost	(3) Est. Gross Profit	(4) GP %	(5) Billings to Date	(6) Revenue Recog.	(7) Cost to Date	(8) GP to Date	(9) Under- billing	(10) Over- billing	(11) Cost-to- Cost %	(12) Est. Cost to Compl.	(13) Backlog GP
111	Green Hills — Davidson Home (single family residence)	1,000,000	900,000	100,000	10.00%	900,000	666,667	600,000	66,667	0	233,333	66.67%	300,000	33,333
114	Donelson — Merrill Home (single family residence)	450,000	400,000	50,000	11.11%	450,000	427,500	380,000	47,500	0	22,500	95.00%	20,000	2,500
115	Hillwood — Cash Home (single family residence)	1,200,000	900,000	300,000	25.00%	1,000,000	1,080,000	810,000	270,000	80,000	0	90.00%	90,000	30,000
119	Liepers Fork — Urban Home (single family remodel)	1,800,000	1,600,000	200,000	11.11%	1,500,000	1,350,000	1,200,000	150,000	0	150,000	75.00%	400,000	a50,000
120	Franklin — Brooks Home (home improvements)	100,000	80,000	20,000	20.00%	0	30,000	24,000	6,000	30,000	0	30.00%	56,000	14,000
Total Uncompleted Contracts		4,550,000	3,880,000	670,000	14.73%	3,850,000	3,554,167	3,014,000	540,167	110,000	405,833		866,000	129,833

Completed Contract Schedule

Job #	Description / Owner	Final Revenue	Total Cost	Gross Profit (Loss)	GP %
112	Smithville — Stone Lake Home (single family vacation)	660,000	540,000	120,000	18.18%
113	Belle Meade — Gill Residence (single family)	1,000,000	860,000	140,000	14.00%
116	Brentwood — Paisley Home (single family residence)	1,575,000	1,275,000	300,000	19.05%
117	Sylvan Park — Harris Townhome (townhome / duplex)	600,000	725,000	(125,000)	-20.83%
	Miscellaneous warranty / renovation	145,000	142,000	3,000	2.07%
Total Completed Contracts		3,980,000	3,542,000	438,000	11.01%

Speculative (Spec) Construction / Development in Progress

Spec Project Description	Proj. Sale Price	Proj. Total Cost	Land Cost	Constr. in Progress	Total Inventory	Est. Compl. Date	Bank Loan Balance	Net Equity
Single family residence — 10,000 s.f. — Natchez	1,800,000	1,385,000	—	10,000	10,000	12/31/21	—	10,000
Single family residence — 8,000 s.f. — Franklin	1,400,000	1,250,000	525,000	675,000	1,200,000	Complete	1,000,000	200,000
Multi-family townhome — 1727 2nd Ave, Unit 1	625,000	560,000	100,000	60,000	160,000	2/30/21	100,000	60,000
Single family — 2,000 s.f. — Murphy Rd.	1,350,000	1,150,000	300,000	350,000	650,000	09/30/20	500,000	150,000
Total Construction in Progress — Spec Projects	5,175,000	4,345,000	925,000	1,095,000	2,020,000		1,600,000	420,000

Reconciliation of Contracts to Statement of Income — 12/31/20

Reconciliation of Contracts to Statement of Income	Revenue Recognized	Total Cost	Gross Profit (Loss)
Completed contracts at 12/31/20 (job-to-date)	3,980,000	3,542,000	438,000
Uncompleted contracts at 12/31/20 (job-to-date)	3,554,167	3,014,000	540,167
Subtotal	7,534,167	6,556,000	978,167
Less revenue and cost recognized through 12/31/19	(3,100,000)	(2,850,000)	(250,000)
Statement of Income — FYE 12/31/2020	4,434,167	3,706,000	728,167



Joint Venture Contract Reporting

Davidson Construction Company, Inc. | Uncompleted Contract Schedule — WIP | For the Period Ended 12/31/20 | Exhibit M

Uncompleted Contract Schedule — Work in Progress

Job #	Description / Location / Owner	(1) Contract Amount	(2) Total Est. Cost	(3) Est. Gross Profit	(4) GP %	(5) Billings to Date	(6) Revenue Recog.	(7) Accrued Loss	(8) Cost to Date	(9) GP to Date	(10) Under- billing	(11) Over- billing	(12) Cost-to- Cost %	(13) Est. Cost to Compl.	(14) Backlog GP
17022	Cumberland River Bridge I-65 (Nashville, TN — TDOT)	20,000,000	18,000,000	2,000,000	10.00%	11,000,000	10,000,000	0	9,000,000	1,000,000	0	1,000,000	50.00%	9,000,000	1,000,000
17025	Minnie Pearl Duck River Bridge (Grinders Switch — TDOT)	6,000,000	4,800,000	1,200,000	20.00%	4,200,000	5,000,000	0	4,000,000	1,000,000	800,000	0	83.33%	800,000	200,000
18004	Vanderbilt Stadium — loss job* (Nashville, TN)	5,000,000	5,500,000	(500,000)	10.00%	4,000,000	3,250,000	500,000	3,750,000	(500,000)	0	250,000	68.18%	1,750,000	0
18007	Dolly Partin Road Repair (Leipers Fork — City Street)	1,000,000	800,000	200,000	20.00%	0	125,000	0	100,000	25,000	125,000	0	12.50%	700,000	175,000
18010	Subcontract #1 — JV Contract** (Davidson-Acme JV Bridge)	10,000,000	8,500,000	1,500,000	15.00%	5,500,000	5,000,000	0	4,250,000	750,000	0	500,000	50.00%	4,250,000	750,000
	Subtotal — self-performed work	42,000,000	37,600,000	4,400,000	10.48%	24,700,000	23,375,000	500,000	21,100,000	2,275,000	925,000	1,750,000		16,500,000	2,125,000
Joint Venture Contract**															
18008	Davidson-Acme Joint Venture	80,000,000	72,000,000	8,000,000	10.00%	35,000,000	32,000,000	0	28,800,000	3,200,000	0	3,000,000	40.00%	43,200,000	4,800,000
	Less 40% attributable to Acme	(32,000,000)	(28,800,000)	(3,200,000)		(14,000,000)	(12,800,000)	0	(11,520,000)	(1,280,000)	0	(1,200,000)		(17,280,000)	(1,920,000)
	JV subtotal — 60% owned	48,000,000	43,200,000	4,800,000	10.00%	21,000,000	19,200,000	0	17,280,000	1,920,000	0	1,800,000	40.00%	25,920,000	2,880,000
Less self-performed work															
18010	Subcontract #1 — Bridge	(10,000,000)	(10,000,000)	0		(5,500,000)	(5,500,000)	0	(5,500,000)	0	0	0		(4,500,000)	0
18011	Subcontract #2 — Retaining wall	(1,000,000)	(1,000,000)	0		(1,000,000)	(1,000,000)	0	(1,000,000)	0	0	0		0	0
	Subtotal	37,000,000	32,200,000	4,800,000		14,500,000	12,700,000	0	10,780,000	1,920,000	0	1,800,000		21,420,000	2,880,000
	Total Uncompleted Contracts	79,000,000	69,800,000	9,200,000	11.65%	39,200,000	36,075,000	500,000	31,880,000	4,195,000	925,000	3,550,000		37,920,000	5,005,000
	Net overbilling											2,625,000			

Completed Contract Schedule — 12/31/20

Job #	Description / Location / Owner	Final Revenue	Total Cost	Gross Profit (Loss)	GP %
17023	Taylor Swift Bridge — I-40* (Nashville, TN)	20,000,000	17,800,000	2,200,000	11.00%
17024	Johnny Cash Parkway — TDOT	25,000,000	25,200,000	(200,000)	-0.80%
18001	Parking facility — deck slabs (Bridgestone Arena)	4,000,000	3,400,000	600,000	15.00%
18011	Subcontract #2 — JV Contract** (retaining wall)	1,000,000	750,000	250,000	25.00%
	Total Completed Contracts	50,000,000	47,150,000	2,850,000	5.70%

Reconciliation of Contracts to Statement of Income

Reconciliation to Statement of Income — 12/31/20	Revenue Recognized	Total Cost	Gross Profit (Loss)	GP %
Completed contracts at 12/31/20 (job-to- date)	50,000,000	47,150,000	2,850,000	5.70%
Uncompleted contracts at 12/31/20 (job-to- date)	36,075,000	31,880,000	4,195,000	11.63%
Idle equipment costs — unallocated (Note 11)		400,000	(400,000)	
Subtotal	86,075,000	79,430,000	6,645,000	
Less revenue and cost recognized through 12/31/19	(39,293,609)	(36,881,489)	(2,412,120)	6.14%
Statement of Income — FYE 12/31/20	46,781,391	42,548,511	4,232,880	9.05%



Contract Cost Shifting Illustration

Davidson Construction Company | For the Year Ended 12/31/2024 | Effect of shifting \$1M cost between a completed and an uncompleted job | **Exhibit N**

Job #	Description	(1) Contract Amount	(2) Total Est. Cost	(3) Est. Gross Profit (1-2)	(4) GP % (3/1)	(5) Billings to Date	(6) Revenue Recog. (1x11)	(7) Cost to Date	(8) Gross Profit to Date (6-7)	(9) Under- billing (6-5)	(10) Over- billing (5-6)	(11) Cost-to- Cost % (7/2)	(12) Est. Cost to Compl. (2-7)
Actual Contract Costs													
Contract in Progress													
1801	Sam's Building	10,000,000	8,000,000	2,000,000	20.00%	6,000,000	5,000,000	4,000,000	1,000,000	0	1,000,000	50.00%	4,000,000
Complete													
1802	Costco Building					22,000,000	22,000,000	22,000,000	0				
	Subtotal					28,000,000	27,000,000	26,000,000	1,000,000	0	1,000,000		
After Cost Shifting – move \$1M of cost from Costco (completed) to Sam's (uncompleted)													
Contract in Progress													
1801	Sam's Building	10,000,000	8,000,000	2,000,000	20.00%	6,000,000	6,250,000	5,000,000	1,250,000	250,000	0	62.50%	3,000,000
Complete													
1802	Costco Building					22,000,000	22,000,000	21,000,000	1,000,000				
	Subtotal					28,000,000	28,250,000	26,000,000	2,250,000	250,000	0		
	Material Misstatements – Increase (Decrease)					0	1,250,000	0	1,250,000	250,000	(1,000,000)		



Capital Employed Adjustment — Good Cash-Flow Job

Construction Company, Inc. | Contract WIP Capital Employed Adjustment | **Illustration A**

Contract Amount	Mobilization (front-end)		Estimated Costs		Gross Profit		Cost of Capital Rate		Avg. Days / Month	
\$12,000,000	\$600,000 • 5.00%		\$10,800,000 • 90.00%		\$1,200,000 • 10.00%		3.00%		15	

	1/31/2021	2/28/2021	3/31/2021	4/30/2021	5/31/2021	6/30/2021	7/31/2021	8/31/2021	9/30/2021	10/31/2021	11/30/2021	12/31/2021	Totals
Cash receipts	-	1,000,000	1,000,000	1,000,000	1,000,000	2,000,000	2,000,000	1,000,000	1,000,000	1,000,000	600,000	400,000	12,000,000
Cash expenditures	(100,000)	(300,000)	(800,000)	(900,000)	(1,100,000)	(1,900,000)	(1,700,000)	(1,200,000)	(900,000)	(900,000)	(900,000)	(100,000)	(10,800,000)
Monthly cash flow	(100,000)	700,000	200,000	100,000	(100,000)	100,000	300,000	(200,000)	100,000	100,000	(300,000)	300,000	1,200,000
Cash receipts — job to date	-	1,000,000	2,000,000	3,000,000	4,000,000	6,000,000	8,000,000	9,000,000	10,000,000	11,000,000	11,600,000	12,000,000	
Cash expenditures — job to date	(100,000)	(400,000)	(1,200,000)	(2,100,000)	(3,200,000)	(5,100,000)	(6,800,000)	(8,000,000)	(8,900,000)	(9,800,000)	(10,700,000)	(10,800,000)	
Net capital provided (employed) — cash basis WIP	(100,000)	600,000	800,000	900,000	800,000	900,000	1,200,000	1,000,000	1,100,000	1,200,000	900,000	1,200,000	
Cost of capital rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Average days (15 ÷ 365)	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	
Adjustment to job costs	123	(740)	(986)	(1,110)	(986)	(1,110)	(1,479)	(1,233)	(1,356)	(1,479)	(1,110)	(1,479)	(12,945)



Capital Employed Adjustment — Bad Cash-Flow Job

Construction Company, Inc. | Contract WIP Capital Employed Adjustment | **Illustration B**

Contract Amount	Mobilization (front-end)	Estimated Costs	Gross Profit	Cost of Capital Rate	Avg. Days / Month
\$12,000,000	\$- • 0.00%	\$11,400,000 • 95.00%	\$600,000 • 5.00%	3.00%	15

	1/31/2021	2/28/2021	3/31/2021	4/30/2021	5/31/2021	6/30/2021	7/31/2021	8/31/2021	9/30/2021	10/31/2021	11/30/2021	12/31/2021	Totals
Cash receipts	-	200,000	500,000	900,000	1,000,000	2,000,000	1,800,000	1,300,000	1,200,000	1,600,000	900,000	600,000	12,000,000
Cash expenditures	(200,000)	(600,000)	(800,000)	(900,000)	(1,100,000)	(1,900,000)	(1,700,000)	(1,200,000)	(900,000)	(1,300,000)	(800,000)	(100,000)	(11,500,000)
Monthly cash flow	(200,000)	(400,000)	(300,000)	-	(100,000)	100,000	100,000	100,000	300,000	300,000	100,000	500,000	500,000
Cash receipts — job to date	-	200,000	700,000	1,600,000	2,600,000	4,600,000	6,400,000	7,700,000	8,900,000	10,500,000	11,400,000	12,000,000	
Cash expenditures — job to date	(200,000)	(800,000)	(1,600,000)	(2,500,000)	(3,600,000)	(5,500,000)	(7,200,000)	(8,400,000)	(9,300,000)	(10,600,000)	(11,400,000)	(11,500,000)	
Net capital provided (employed) — cash basis WIP	(200,000)	(600,000)	(900,000)	(900,000)	(1,000,000)	(900,000)	(800,000)	(700,000)	(400,000)	(100,000)	-	500,000	
Cost of capital rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Average days (15 ÷ 365)	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	0.0411	
Adjustment to job costs	247	740	1,110	1,110	1,233	1,110	986	863	493	123	-	(616)	7,397



WIP & Completed Contract Schedule – Disclosure

Disaggregate revenue when it is significant to the user (Surety)

Contract Description & Disaggregation Criteria

- Type of work & contract (cost-plus, lump-sum, GMP, unit-price)
- Contract owner
- Location (county, state, country)
- Claims & change orders on a separate WIP line
 - *Ensure external reporting follows what is permissible by US GAAP and the appropriate revenue is being recognized*
- Other contract litigation (sub failure, collections, accidents)
- Loss-accrual column or notation
- Footnote for any method other than cost-to-cost
- Material Change in estimate disclosure

Best practice internal control procedure:

- Use of zero profit estimate until 10% complete – conservative revenue recognition until job is “bought out” and bid is converted to budget – Must be consistently applied.
- Use lower estimated gross profit or historical gross profit estimate until at least 50% complete
- Bid spread contracts



Session 4

Session 4 – Contractor Valuations for Buying or Selling

- *Understanding the Transaction process: Deal Flow and Readiness*
- *EBITDA normalization and capitalization*
- *Valuation methods and impact of valuation discounts*
- *Transaction components: LOI, Due Diligence, Closing, NWC true-up, Contingent consideration*



Preparing for the transaction process: Buyers



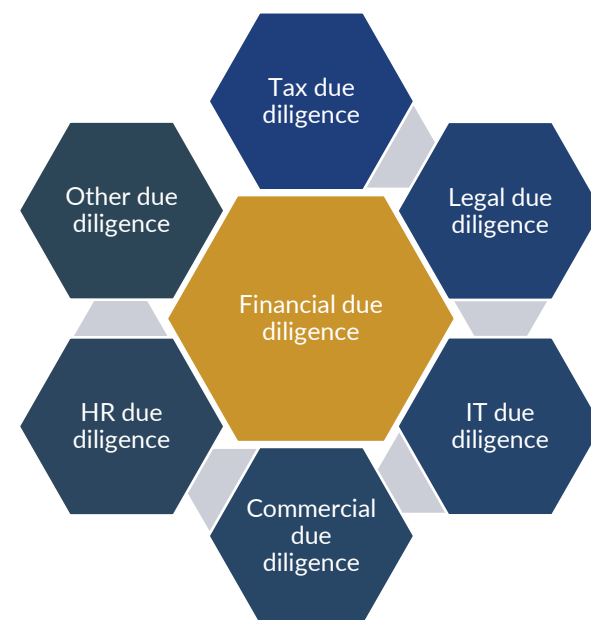
Know the industry and market — terminology, licensing requirements, competition, comparatives, etc.



Consider your post-transaction infrastructure: IT, HR, administrative, marketing, physical presence, everything incremental to operations



Plan for more than just financial due diligence





What buyers look for from a financial accounting perspective

“Quality of earnings” that goes beyond revenue and expenses

Project-based metrics that can drive deeper insights into profitability and growth

What does the core business look like from top to bottom

Income Statement

Unadjusted

	2023	2024	TTM
Net Revenue	\$7,839	\$13,728	\$12,017
Cost of Revenue	5,806	10,124	9,928
Gross Profit	2,034	3,604	2,090
Operating Expenses	1,307	1,701	1,819
Operating Income	727	1,903	270
Unadjusted EBITDA	\$730	\$1,903	\$270
Seller Proposed Adjs.	61	1,815	2,661
Due Diligence Adjustments	7	(536)	38
Adjusted EBITDA	\$798	\$3,182	\$2,970

Net Revenue by Service Type

	Count of Projects			Net Revenue			Gross Margin		
	2023	2024	TTM	2023	2024	TTM	2023	2024	TTM
Service Type									
Sprinkler Contract Project	74	99	104	\$5,323	\$12,352	\$11,991	29.6%	35.9%	35.3%
Sprinkler Service	500	513	495	930	654	578	49.5%	55.9%	50.6%
Alarm Contract Project	25	25	44	315	642	569	53.4%	44.3%	43.8%
Inspections	352	423	505	433	491	541	68.8%	68.6%	71.8%
Alarm Service	550	466	451	480	323	404	62.1%	55.3%	61.9%
Monitoring	125	143	160	140	136	168	56.2%	49.6%	51.0%
Sprinkler Overhead	8	6	6	(0)	-	2			
Alarm Overhead	2	2	3	(1)	-	1			
Other	17	-	-	69	-	-			
All Identified Projects	1,653	1,677	1,768	7,688	14,597	14,255	26.6%	31.9%	31.5%



Preparing for the transaction process: Sellers

Build an internal EBITDA schedule — put yourself in salesperson mode



- Think “recurring versus nonrecurring”



- Personal activities — this is not a taboo subject



- Family payroll — involved in day-to-day operations?



- Recent changes to operations — cash flow or earnings impact?



- Consider the balance sheet — what could noncash impacts be hiding?

Simply put: If it's not part of core operations, it's not part of EBITDA.



Preparing for the transaction process: Sellers

Familiarize yourself with accounting software, financial reporting module, project management systems, and other technologies utilized

Prepare (and practice maintaining) a WIP schedule →

Know your projects: bread-and-butter, high/low performers, typical monthly/annual volume, profile and mix, etc.

Know your relationships: with customers as well as vendors, suppliers, employees, and even competitors →

WIP Schedule

As of December 31, 2025

Job #	Current Contract Value	Current Estimated Costs	Profit Margin %	Billings to Date	Costs to Date	Estimated % Complete	Net Over/ (Under)- Billings
Job #001	173,800	121,660	30.0%	35,973	2,121	1.7%	32,943
Job #002	2,654,944	2,123,955	20.0%	2,654,944	527,519	24.8%	1,995,545
Job #003	105,096	73,567	30.0%	105,096	28,606	38.9%	64,230
Job #004	80,864	56,605	30.0%	16,173	2,100	3.7%	13,173
Job #005	349,000	261,750	25.0%	349,000	56,534	21.6%	273,622
Job #006	20,129	12,077	40.0%	20,129	5,107	42.3%	11,617
Job #007	118,887	83,221	30.0%	118,887	74,061	89.0%	13,086
Job #008	86,922	60,845	30.0%	17,384	5,215	8.6%	9,934
Job #009	35,077	23,502	33.0%	7,015	7,245	30.8%	(3,798)
Job #010	35,288	23,643	33.0%	35,288	10,183	43.1%	20,089

Revenue by Customer

Customer	TTM			
	Net Revenue	Cost of Revenue	Gross Margin	% of Total Revenue
Customer #1	\$3,275	\$1,781	45.6%	23.0%
Customer #2	1,413	901	36.2%	9.9%
Customer #3	1,367	973	28.8%	9.6%
Customer #4	1,086	816	24.9%	7.6%
Customer #5	613	418	31.9%	4.3%
Customer #6	520	376	27.7%	3.6%
Customer #7	510	177	65.3%	3.6%
Customer #8	385	288	25.0%	2.7%
Customer #9	325	243	25.3%	2.3%
Customer #10	263	183	30.3%	1.8%
Customer #11	225	90	60.0%	1.6%
Customer #12	217	99	54.5%	1.5%
Customer #13	192	140	27.2%	1.3%
Customer #14	168	54	68.0%	1.2%
Customer #15	139	81	41.4%	1.0%



Focus areas in the real estate and construction industries



Customer
concentration



Historical
project profile



Work in
progress



Project
performance
tracking



Performance by
project
groupings



Backlog and
pipeline
analytics



Acquisition Checklist: Confidential Information Request

What to request from a contractor after the NDA, for every entity in the transaction.

1. Purchase Price

Asking price net of debt, asset vs. entity deal, excluded non-business assets, broker commission.

2. Financial

5 years of audited/reviewed statements with completed and uncompleted contract WIP and all disclosures.

3. Normalizing Items

Non-recurring revenue and expense, related-party activity, and COVID-era PPP loans and ERC credits.

4. Gross Profit Fade/Gain

5-year contract fade and gain lookback schedules — the core test of estimating discipline.

5. Taxes

Most recent federal and state returns, 3 years of taxing-authority notices, tax depreciation schedules.

6. Equipment & Fixed Assets

Depreciation schedules, 5 years of capital spend, non-cancelable equipment leases, leased facilities.

7. Revenue Concentration

Revenue and gross profit by top 10 GCs, owners, and customers over 5 years, split by contract type.

8. Operations & People

Owner and key-management pay for 5 years, retention list, union agreements, pension and unfunded liabilities.

9. Legal, Related Party & IT

Ownership and buy/sell agreements, distributions, related-party leases and loans, litigation, insurance, systems.



Where the Diligence Really Happens

Six requests carry most of the valuation risk in a specialty contractor deal.

WIP Schedules — 5 Years

Completed and uncompleted contract WIP with every audit disclosure, plus the most recent interim balance sheet and income statement.

Fade and Gain Lookback

A 5-year contract-level fade/gain schedule. Persistent fade signals optimistic estimating and a lower quality of earnings.

Earnings Normalization

Non-recurring revenue and cost, related-party transactions, and pandemic-era PPP loans and employee retention credits.

Customer and Contract Mix

Top 10 GCs, owners, and customers by revenue and gross profit, split across negotiated, hard bid, cost-plus/T&M, government, and service work.

Labor and Legacy Obligations

Union contract terms, pension plan data, unfunded contingent liabilities, and deferred or phantom-stock arrangements.

Risk and Retention

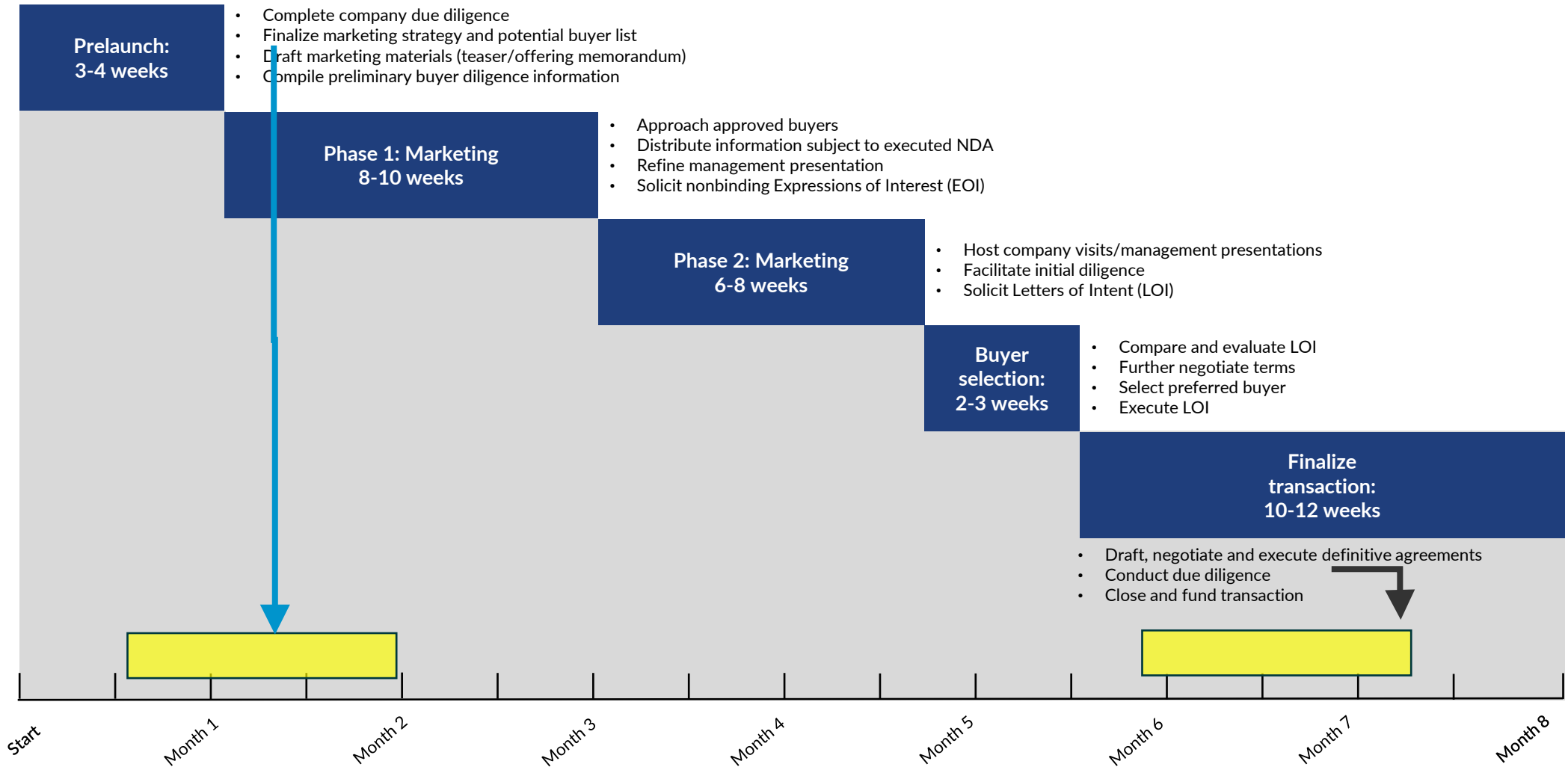
Pending litigation with management's exposure estimate, insurance coverage, deductibles and experience mod, and who stays post-closing.

Bottom line: Estimating accuracy, customer concentration, and legacy labor obligations drive the price — confirm each before the LOI hardens.



Transaction process overview:

Readiness needs to be assessed 1 Year ahead of the below timeline





Earnings Capitalization Multiples – 3x to 15x EBITDA

Based on 500+ transactions – typical EBITDA multiple ranges by sector:

General contractor (no niche)

3x–5x

Ready-mix concrete materials

7x–9x

Grading, excavation & utility

3x–4x

Asphalt materials & construction

7x–9x

Bridge & concrete construction

4.5x–6x

Aggregates – gravel, sand, fill

8x–10x

Electrical, mechanical, HVAC,
plumbing

6.5x–8x

Aggregates – limestone / hard rock

10x–15x

Aggregate reserves must exceed 30 years. Source: DealStats (BVR Business Valuation Resources).

Construction Contractor Valuation Methods & Principles

Three basic valuation methods to consider

Adjusted Book Value

Asset-based approach

- The valuation “floor” before discounts
- a.k.a. liquidation value

Earnings Capitalization

Income / cash-flow approach

- EBITDA capitalization
 - “Cash-free / debt-free” basis
- Discounted Cash flow
- Capitalized Cash flow

Market Value

Market approach

- Public-company PE & EBITDA multiples
- Interesting, but not central to M&A
- Guideline Company Method

Other Considerations

- Working-capital benchmark is added to Earnings-Cap value as an asset
- Adjust for discounts below 51% and for minority (lack-of-control) interests
- Discounts for ESOP are legally limited to 10%
- Excluded assets, affiliates, subsidiaries, life insurance, etc.
- Cash free / debt free transaction concept – misleading due to minimum working capital target





Adjusted Book Value Method (ABV)

Adjusted Book Value is typically the “floor” value (a.k.a. liquidation value) — and the highest value when EBITDA is low.

Audited/reviewed/interim book value adjusted for:

- FMV of land, buildings & equipment (less tax & selling costs)
 - Remember deferred tax on recapture if not step-up basis
- FMV of non-business assets (included or excluded?)
- Unrecorded job fade or gain
- Reductions for impaired goodwill & other soft assets
- Off-balance-sheet tax liabilities (if no basis step-up)
- Off-balance-sheet obligations (leases, contingencies, etc.)

Consider a contract fade liability for completion of contract backlog for liquidation value

Recommended basis for most owner buy / sell formulas – instead of EBITDA with discounts

- Annual Stated Value is best practice
- Preferred method for co valuations

ABV method is used by buyers to determine goodwill calculation, cash at closing, and other matters for transactions based on earnings capitalization method



Adjusted Book Value Calculation

Davidson Contractors

Stockholders' Equity – per audited financial statement		\$20,000,000	<i>9/30/2024</i>
Balance sheet adjustments at closing:			
Inventory adjustment	\$ –		
Prepaid expenses and related party A/R	(150,000)		
Contract WIP adjustment	(1,200,000)		
Unrecorded liability contingency	–		
Off balance sheet tax liabilities	–		
		\$(1,350,000)	
Estimated FMV of trucks and equipment			
Estimated FMV – per appraisal	\$25,000,000		
Less book value	(14,700,000)		
Estimated FMV of trucks and equipment		10,300,000	
Estimated FMV of asphalt plants			
Estimated FMV – per appraisal	\$18,000,000		
Less book value	(9,000,000)		
Estimated FMV of trucks and equipment		9,000,000	
Estimated Adjusted Book Value		\$37,950,000	<i>Net to seller</i>
Less excess working capital distributed to seller at closing		(8,010,000)	
Add debt to be paid off by seller at closing		1,000,000	
Total purchase price based on ABV (debt-free)		\$30,940,000	



Earnings Capitalization Method (EBITDA)

The Earnings-Cap method uses history to predict the future — is that safe in construction?

How It Works

- Capitalizes expected adjusted-EBITDA cash flow over a set return period
- Cap rate = the years needed for the business to “pay for itself”
- Assumes all after-tax cash flow is dedicated to payback
- Capitalization rate is simply the number of years required for the acquired operations to “pay for itself” assuming the historical cash flow continues 20%=5x; 14.3%=7x; 10% = 10x
- EBITDA for equipment intensive contractors is generally reduced for annual cap-ex

Key Risks

- Are earnings steady or cyclical?
- Are historical earnings a reliable basis for projections?
- Can the buyer realize the cash flow over 5–10 years?
- Downturn, recession, pandemic or supply-chain shocks, new competitor?
- Are key personnel responsible for historical earnings still employed?
- What if they left and now work for a competitor?

EBIT “DA” is not free cash flow for heavy highway contractors



Calculating “Normalized” EBITDA

“Normalized” EBITDA = pre-tax net income adjusted for:

Owner & Non-Recurring Items

- Non-recurring revenue & expenditures
- Excess owner compensation & benefits (\$300k/owner benchmark)
- Excessive rents paid to owners or related parties
- Extraordinary gross profit or non-operating damage recovery
- Catastrophic job loss, liquidated damages or sub failure

Capital, Interest & Backlog

- Passive interest income & expense
- Depreciation net of replacement capex
- Review capitalization policy & useful-life practices
- Cumulative job fade/gain — **the most important adjustment**
 - Reduce current-year backlog to the historical profit average



Other EBITDA & Multiple Considerations

Factors that move the EBITDA multiple up or down:

Barrier to entry

Asphalt, quarries and similar niches

Public / government mix

DOD, DOT & municipal work – higher multiple

Negotiated vs. hard bid

Negotiated work earns a higher multiple

Bonded vs. non-bonded

Similar multiple; affects WC retention

Key-personnel retention

Workforce depth and continuity

Post-transaction market

Expected changes after the deal

Leases & permits

Site lease, licensing or renewal issues

Supply exposure

Aggregate reserves, cement, asphalt, steel, copper



Working Capital at Closing

Working capital at closing above the benchmark is added to the purchase price:

5–15%

Benchmark range of net revenue

10%

Most common target

90 days

Working-capital true-up

Working Capital Mechanics

- Only tangible working capital is included; analyze the trailing-12-month cycle
- Inventories are counted at closing — obsolete, non-turning or excess (RAP, scrap) is devalued
- Excess working capital is escrowed pending A/R collections
- Add back non-business assets (land, investments); the debt-free basis deducts long-term debt & leases



Backlog Lookback & Earn-Out Provisions (*Contingent Consideration*)

Post-closing true-ups protect the buyer and retain key people

Backlog Lookback True-Up

- Standard on WIP backlog — one year is common (longer for long-term jobs)
- Purchase price is adjusted up or down based on final profit
- An amount is held in escrow equal to POC backlog gross profit

Earn-Out & Retention

- Popular in acquisitions & redemptions — reduces risk from lack of work
- Tied to key-employee retention; based on a cumulative 3- or 5-year EBITDA target
- “Golden handcuffs”: 3-year post-sale employment shares a funded pool
- Deferred bonus or phantom stock
- **GAAP requires earnouts to be valued annually using valuation models, Monte Carlo simulation or Black-Scholes option pricing model.**
- **Private Equity** – Tends to put profit interest in place. Generally, tax free at the grant date.
 - Under GAAP – Can be treated as equity treatment or liability treatment.
 - GAAP requires valuation at grant date or annually if determined to be treated as a liability under ASC 718
- Consider tag-a-long type provision in a buy/sell stock redemption valuation for future sale.



Adjusted EBITDA Computation

Davidson Contractors · Purchase / Sale Valuation – Earnings Capitalization Method

Adjusted EBITDA Computation	Year Ended 9/30/2020	Year Ended 9/30/2021	Year Ended 9/30/2022	Year Ended 9/30/2023	Year Ended 9/30/2024
Net Income (loss) pre-tax	\$1,000,000	\$1,300,000	\$4,750,000	\$5,290,000	\$7,350,000
Additions to net income					
Excess comp to owners (> \$300k each)	260,000	240,000	360,000	1,500,000	650,000
Related party rent paid in excess of FMV	80,000	80,000	90,000	100,000	100,000
Depreciation	2,470,000	2,410,000	3,320,000	3,480,000	3,510,000
Less capex (actual annual replacement)	(2,000,000)	(1,500,000)	(2,100,000)	(2,400,000)	(2,000,000)
Interest expense	42,000	42,500	16,000	18,000	2,200
Loss on sale of fixed assets	–	–	140,000	–	–
Other nonrecurring expenditures	85,000	–	–	–	–
Net additions to income	937,000	1,272,500	1,826,000	2,698,000	2,262,200
Deductions from net income					
Investment and interest income	(4,780)	(2,470)	(17,000)	(25,000)	(46,500)
Gain on sale of assets – nonrecurring	(162,761)	(249,136)	–	(61,867)	(81,172)
Contract WIP adjustment	–	–	(400,000)	(400,000)	(400,000)
Other nonrecurring income – ERC	–	–	(800,000)	–	–
Other nonrecurring income – SBA PPP loan	–	(1,200,000)	–	–	–
Net deductions from income	(167,541)	(1,451,606)	(1,217,000)	(486,867)	(527,672)
Less contingency discount (0%)	–	–	–	–	–
Estimated Normalized EBITDA, net of capex	\$1,769,459	\$1,120,894	\$5,359,000	\$7,501,133	\$9,084,528
	5-Year		3-Year		
Average EBITDA	\$4,967,003		\$7,314,887		
Weighted Average EBITDA	\$6,367,695		\$7,935,808		



Valuation – Excess Working Capital

Davidson Contractors · 12/31/2024 · Page 2

Reported working capital		\$14,850,000	9/30/2024 · Adjust at closing
Add (Deduct) Adjustments:			
Add current portion of debt		\$250,000	
Inventory valuation adjustment		\$ –	Adjust at closing
Contract WIP adjustment	5%	(1,200,000)	(Adjustment to net deferral)
Deduct prepaid expenses and soft assets		(150,000)	
Unrecorded liabilities – contingency	0%	–	(24-month escrow)
Off balance sheet tax liabilities		–	(internal valuation only)
Tangible working capital		13,750,000	
Less working capital target	7.0%	(5,740,000)	Trailing 12-month
Excess working capital retained by Sellers		\$8,010,000	

Net O/B
\$1,800,000

Backlog
\$60,000,000

Annual revenue
\$82,000,000



Earnings Capitalization Method

Davidson Contractors · Purchase / Sale Valuation

Earnings Capitalization Valuation – 5-Year	6.5x EBITDA	7.0x EBITDA	8.0x EBITDA	
EBITDA	\$6,367,695	\$6,367,695	\$6,367,695	<i>Weighted</i>
Cap rate – years	6.5	7.0	8.0	
Earnings Capitalization	41,390,015	44,573,862	50,941,557	<i>Purchase price</i>
Add excess working capital	8,010,000	8,010,000	8,010,000	<i>9/30/2024 · Adjust at closing</i>
Less installment note balance	(1,000,000)	(1,000,000)	(1,000,000)	<i>9/30/2024 · Adjust at closing</i>
Valuation – debt free	48,400,015	51,583,862	57,951,557	
Earnings Capitalization Valuation – 3-Year	6.5x EBITDA	7.0x EBITDA	8.0x EBITDA	
EBITDA	\$7,935,808	\$7,935,808	\$7,935,808	<i>Weighted</i>
Cap rate – years	6.5	7.0	8.0	
Earnings Capitalization	51,582,754	55,550,658	63,486,467	<i>Purchase price</i>
Add excess working capital	8,010,000	8,010,000	8,010,000	<i>9/30/2024 · Adjust at closing</i>
Less installment note balance	(1,000,000)	(1,000,000)	(1,000,000)	<i>9/30/2024 · Adjust at closing</i>
Valuation – debt free	58,592,754	62,560,658	70,496,467	



Valuation Summary / Goodwill Calculation

Davidson Contractors

Valuation Summary – 5-Year	6.5x EBITDA	7.0x EBITDA	8.0x EBITDA
Valuation – Earnings Cap Method	\$41,390,015	\$44,573,862	\$50,941,557
Valuation – ABV	\$(30,940,000)	\$(30,940,000)	\$(30,940,000)
Goodwill (intangible value)	\$10,450,015	\$13,633,862	\$20,001,557
Goal <50%	25.25%	30.59%	39.26%
Valuation Summary – 3-Year	6.5x EBITDA	7.0x EBITDA	8.0x EBITDA
Valuation – Earnings Cap Method	\$51,582,754	\$55,550,658	\$63,486,467
Valuation – ABV	\$(30,940,000)	\$(30,940,000)	\$(30,940,000)
Goodwill (intangible value)	\$20,642,754	\$24,610,658	\$32,546,467
Goal <50%	40.02%	44.30%	51.27%



Post-Closing Projection

Davidson Contractors · Revenue growth 3%

	Growth	2024	2025	2026	2027	2028	5-Year Total	2029	2030	2031	2032	2033	10-Year Total
Revenue		80,000,000	82,400,000	84,872,000	87,418,160	90,040,705	424,730,865	92,741,926	95,524,184	98,389,909	101,341,607	104,381,855	917,110,345
Direct costs		(71,063,858)	(73,195,773)	(75,391,647)	(77,653,396)	(79,982,998)	(377,287,671)	(82,382,488)	(84,853,962)	(87,399,581)	(90,021,569)	(92,722,216)	(814,667,487)
Gross profit	11.17%	8,936,142	9,204,227	9,480,353	9,764,764	10,057,707	47,443,194	10,359,438	10,670,221	10,990,328	11,320,038	11,659,639	102,442,858
Add operational synergies		–	–	–	–	–	–	–	–	–	–	–	–
G&A overhead	3.14%	(2,514,258)	(2,589,685)	(2,667,376)	(2,747,397)	(2,829,819)	(13,348,535)	(2,914,714)	(3,002,155)	(3,092,220)	(3,184,986)	(3,280,536)	(28,823,145)
G&A expense reduction		–	–	–	–	–	–	–	–	–	–	–	–
Net income		6,421,885	6,614,541	6,812,978	7,017,367	7,227,888	34,094,659	7,444,725	7,668,066	7,898,108	8,135,052	8,379,103	73,619,713
Less tax provision	35%	(2,247,660)	(2,315,089)	(2,384,542)	(2,456,078)	(2,529,761)	(11,933,131)	(2,605,654)	(2,683,823)	(2,764,338)	(2,847,268)	(2,932,686)	(25,766,899)
Add Tax Benefit – goodwill		667,582	667,582	667,582	667,582	667,582	3,337,910	667,582	667,582	667,582	667,582	667,582	6,675,820
Add Tax Benefit – depreciation		6,020,000	–	–	–	–	6,020,000	–	–	–	–	–	6,020,000
Net income after-tax		10,861,807	4,967,034	5,096,017	5,228,871	5,365,709	31,519,438	5,506,653	5,651,825	5,801,352	5,955,366	6,113,999	60,548,634
Less annual capex		–	(3,000,000)	(3,090,000)	(3,182,700)	(3,278,181)	(12,550,881)	(3,376,526)	(3,477,822)	(3,582,157)	(3,689,622)	(3,800,310)	(30,477,318)
Add back depreciation		6,142,857	6,142,857	6,142,857	6,142,857	6,142,857	30,714,286	6,142,857	6,142,857	6,142,857	6,142,857	6,142,857	61,428,571
Cash flow before debt service		17,004,664	8,109,891	8,148,875	8,189,028	8,230,385	49,682,843	8,272,984	8,316,860	8,362,053	8,408,601	8,456,546	91,499,887
Debt service (10-year amort)		(7,283,654)	(7,283,654)	(7,283,654)	(7,283,654)	(7,283,654)	(36,418,271)	(7,283,654)	(7,283,654)	(7,283,654)	(7,283,654)	(7,283,654)	(72,836,543)
Net cash flow		9,721,010	826,237	865,220	905,373	946,731	13,264,572	989,329	1,033,206	1,078,398	1,124,947	1,172,892	18,663,344

Discounted cash flows (7.5%) · 10-year
\$64,811,540

Discounted cash flows (7.5%) · 7-year
\$51,634,066



Debt Service (ROI) Calculation

Davidson Contractors · Post-Closing Projection

Debt service (ROI) Calculation		6.5x EBITDA	7.0x EBITDA	8.0x EBITDA
Purchase price 3-year EBITDA		\$51,582,754	\$55,550,658	\$63,486,467
Downpayment	10%	\$(5,158,275)	\$(5,555,066)	\$(6,348,647)
Post-closing capex		\$ —	\$ —	\$ —
Less sale of excess assets		\$ —	\$ —	\$ —
Loan or capital invested		\$46,424,479	\$49,995,593	\$57,137,820
Cost of Capital – ROI	7.5%	7.50%	7.50%	7.50%
Annual payment (10-yr)		\$6,763,393	\$7,283,654	\$8,324,176

Tax benefits – Rough estimate	Assume 5x	Assume 7x
Asset basis	\$43,000,000 Depreciable assets FMV	\$28,610,658 Goodwill
Bonus / amortization	\$17,200,000 40% bonus – pending 2024	\$1,907,377 Annual 15-yr
Tax rate	35%	35%
Tax benefits	\$6,020,000	\$667,582



Contingent Earn-Out Payment

Davidson Contractors · Illustration Only

Total cash to Seller (purchase price at closing)	Assume 7x	\$55,550,658
Post closing operations	<i>Actual EBITDA</i>	
Year-1		\$8,000,000
Year-2		\$6,000,000
Year-3		\$10,000,000
Total cumulative EBITDA during earnout period		24,000,000
Less payback of investment to Buyer		
Annual EBITDA (less cap-ex) goal		\$6,367,695
Earnout period – years		3
Cumulative EBITDA goal during earnout period		\$(19,103,084)
Excess EBITDA during earnout period		\$4,896,916
Earnout percentage payable to Seller		50%
Earnout payable to Seller after Year-3 (90-days after YE)	<i>No cap</i>	\$2,448,458
Total cash to Seller after Earnout Period from Buyer		\$57,999,116
Total proceeds to Seller – purchase price and earnout		
Purchase price		\$55,550,658
Excess working capital at closing less debt		\$7,010,000
Received at closing		\$62,560,658
Earnout – contingent payment 3-years after closing		\$2,448,458
Total proceeds to Seller assuming Earnout		\$65,009,116



Contract Lookback True-Up Calculation

Construction Company, Inc. · Period 6/30/25 (closing) to 10/31/25 (true-up)

No.	Description / Type / Location / Owner	[1] Contract Amount	[2] Total Estimated Cost	[3] Estimated Gross Profit	[4] Gross Profit %	[5] Billings at closing	[6] Revenue Recognized	[8] Cost at closing	[9] Gross Profit to Date	[10] Underbilling	[11] Overbilling	[12] Cost-to-Cost % Completion	Rev. Rec. at closing	Profit Increase (Decrease)
Contract WIP as Reported at Closing — as of 6/30/25														
1801	Completed Gain Job	1,000,000	800,000	200,000	20.00%	900,000	750,000	600,000	150,000	—	150,000	75.00%		
1802	Completed Fade Job	1,000,000	800,000	200,000	20.00%	400,000	500,000	400,000	100,000	100,000	—	50.00%		
1803	WIP gain job	1,000,000	800,000	200,000	20.00%	700,000	600,000	480,000	120,000	—	100,000	60.00%		
	WIP – as reported at closing	3,000,000	2,400,000	600,000		2,000,000	1,850,000	1,480,000	370,000	100,000	250,000			
Revised Estimates at 10/31/25 — Contract WIP at final (or WIP) Gross Profit														
1801	Completed Gain Job	1,100,000	800,000	300,000	27.27%	900,000	825,000	600,000	225,000	—	75,000	75.00%	150,000	\$75,000
1802	Completed Fade Job	1,000,000	1,100,000	(100,000)	-10.00%	400,000	363,636	400,000	(36,364)	—	36,364	36.36%	100,000	(136,364)
1803	WIP Fade job	1,200,000	1,100,000	100,000	8.33%	700,000	523,636	480,000	43,636	—	176,364	43.64%	120,000	(76,364)
	WIP – Lookback True-up (90-days, 8/31/25)	3,300,000	3,000,000	300,000		2,000,000	1,712,273	1,480,000	232,273	—	287,727		370,000	(137,727)

6/30/25 (closing) → 10/31/25 (true-up)	Revenue Recognized	Total Cost	Gross Profit
Contract WIP True-up at 10/31/25 – lookback	1,712,273	1,480,000	232,273
Contract WIP at closing – As Reported	(1,850,000)	(1,480,000)	(370,000)
Increase (decrease) to working capital	(137,727)	—	(137,727)

Adjustment bucket / de minimis
 $370,000 \times 10.0\% = 37,000$

Adjustment to purchase price for WC true-up
 $(137,727 - 37,000 = \$100,727)$



Questions?

Thank you!



Appendix



Front-End Loading to Overbilling Analysis

Davidson Construction Company, Inc. | December 31, 2024 | **Exhibit F**

Contract #	Description	(1) Mobilization / Front-End Loading*	(2) % Complete	(3) % Uncompl.	(4) Pro-Rated FE Loading (1x3)	(5) Overbilling Reported	(6) FE Surplus / (Deficit) (5-4)
Bridge and Concrete Division							
101	TDOT	\$1,000,000	50.0%	50.0%	\$500,000	\$1,000,000	\$500,000
102	TDOT	100,000	20.0%	80.0%	80,000	100,000	20,000
103	Nashville Public Works	200,000	60.0%	40.0%	80,000	-	(80,000)
	Division subtotal	1,300,000			660,000	1,100,000	440,000
Grading & Excavation Division							
501	TDOT	1,000,000	50.0%	50.0%	500,000	200,000	(300,000)
502	TDOT	200,000	90.0%	10.0%	20,000	100,000	80,000
504	Alabama DOT - Jefferson	2,600,000	30.0%	70.0%	1,820,000	1,000,000	(820,000)
	Division subtotal	3,800,000			2,340,000	1,300,000	(1,040,000)
	Total — All Divisions	\$5,100,000			\$3,000,000	\$2,400,000	\$(600,000)

* Mobilization and front-end load amounts come from bid tabs and the most recent pay application / estimate.

At minimum, contracts should have a front-end **surplus**. In addition — each job should have a overbilling reserve sufficient to cover contract completion, punch list, and collection reserves...etc. A front-end **deficit** indicates significant risk that POC estimates may be incorrectly optimistic.

Analyze adequacy of overbilling vs. the front-end allowance:

- Surety bond or special insurance deposit
- Front-end payments to subcontractors or suppliers
- General conditions, jobsite set-up, etc.
- Estimated punch list, completion & unbalanced bid-item costs



Contract Cost Analysis – I-40 Bridge

Sample Construction Company | Job No. 30092 – Nashville, TN | Owner: Tennessee DOT | PM: RAD | Liberty Surety Bond 3/1/24 | Bid spread \$319,568 (4.95%) | **Exhibit G**

Contract Summary	Revenue	Cost	Profit	Percentage
Original Contract Amount	\$6,450,540	\$5,819,387	\$631,153	9.78%
Change Order No. 1	(27,500)	(23,560)	(3,940)	14.33%
Change Order No. 2	222,548	122,569	99,979	44.92%
Cost adjustment (Column 5)	-	356,238	(356,238)	-
Revised Contract Amount	\$6,645,588	\$6,274,634	\$370,954	5.58%

Phase Code	Description	(1) As Bid Cost	(2) Actual Cost to Date	(3) (Over)/Under Variance	(4) Estimated Cost to Complete	(5) Cost Adjustment	(6) Revised Total Estimated Cost
1001	General conditions & mob	\$381,500	\$178,564	\$202,936	\$190,000	\$(12,936)	\$368,564
1005	Engineering / surveying	64,000	52,000	12,000	12,000	-	64,000
1010	Clearing & grubbing	112,000	112,000	-	-	-	112,000
1015	Erosion control	89,560	92,555	(2,995)	3,500	6,495	96,055
1020	Roadway borrow excavation	949,590	958,501	(8,911)	37,000	46,001	995,591
1040	Rock excavation	269,000	289,699	(20,699)	100,000	120,699	389,699
1090	Topsoil & finish excavation	62,000	9,600	52,400	52,400	-	62,000
1100	Bridge excavation	426,954	458,906	(31,952)	18,000	49,952	476,906
2001	Bridge pier No. 1	646,000	728,956	(82,956)	-	82,956	728,956
2002	Bridge pier No. 2	549,000	562,531	(13,531)	79,801	93,332	642,332
2010	Bridge beams	988,900	118,000	870,900	840,000	(30,900)	958,000
2020	Bridge deck & wall	656,923	82,561	574,362	575,000	638	657,561
3001	Guardrail	79,500	-	79,500	79,500	-	79,500
4001	Base stone	86,500	-	86,500	86,500	-	86,500
4002	Asphalt paving	378,900	-	378,900	378,900	-	378,900
4050	Signage	29,500	-	29,500	29,500	-	29,500
5001	Landscaping	49,560	-	49,560	49,560	-	49,560
	Change Order No. 1	-	-	-	-	(23,560)	(23,560)
	Change Order No. 2	-	-	-	-	122,569	122,569
	Total	\$5,819,387	\$3,742,883	\$2,076,504	\$2,531,751	\$356,238	\$6,274,634



Change Order Segmentation Illustration

Davidson Construction Company, Inc. | Chapter 3 – Separate Performance Obligation | Exhibit I

Original bid on 3/1/23				
	Highway & Bridge Construction	Change Order	Total	
Total contract amount	\$20,000,000	\$–	\$20,000,000	
Total estimated contract costs	18,000,000	–	18,000,000	
Estimated Gross Profit	\$2,000,000	\$–	\$2,000,000	
Estimated Gross Profit % of Revenue	10.00%	0.00%	10.00%	
At 12/31/23				
	Original Contract	Unapproved Change Order	Combined	
Billings to date	\$10,000,000	\$–	\$10,000,000	
Cost incurred to date	\$9,000,000	\$500,000	\$9,500,000	
Percentage complete (÷ \$18.5 M cost)	50.00%		51.35%	
Revenue recognition	\$10,000,000	\$–	\$10,270,270	
Gross profit recognition (\$1.5 M revised)	\$1,000,000	\$(500,000)	\$770,270	
Net over-billing (under-billing)	\$–		\$(270,270)	
On 7/1/24 – Negotiated Change Order				
	Original Contract	Change Order	Combined	
CO Contract Amount	\$20,000,000	\$3,000,000	\$23,000,000	
CO Estimated Cost	18,000,000	2,000,000	20,000,000	
CO Estimated Gross Profit	\$2,000,000	\$1,000,000	\$3,000,000	
CO Estimated Gross Profit %	10.00%	33.33%	13.04%	
At 12/31/24 – Original Contract Completed				
	Original Contract	Change Order	Total Segmented	Non-Segmented
Billings to date	\$20,000,000	\$1,800,000	\$21,800,000	\$21,800,000
Cost incurred to date	\$18,000,000	\$1,500,000	\$19,500,000	\$19,500,000
Percentage complete	100.00%	75.00%	97.50%	97.50%
Revenue recognition	\$20,000,000	\$2,250,000	\$22,250,000	\$22,425,000
Gross profit recognition	\$2,000,000	\$750,000	\$2,750,000	\$2,925,000
Net over-billing (under-billing)	\$–	\$(450,000)	\$(450,000)	\$(625,000)
Segmented v. Non-Segmented Comparison				
	Total Segmented	Non-Segmented	Over (Under) Recognition	
GAAP Contract Revenue Recognition	\$22,250,000	\$22,425,000	\$175,000	
GAAP Contract Profit Recognition	\$2,750,000	\$2,925,000	\$175,000	
IRS Contract Revenue Recognition	\$22,250,000	\$22,425,000	\$175,000	
IRS Contract Profit Recognition	\$2,750,000	\$2,925,000	\$175,000	



Warranty & Maintenance Segmentation

Davidson Construction Company, Inc. | Extended Period Warranty & Maintenance – Separate Performance Obligations | **Exhibit H**

Original bid on 3/1/23				
	Hwy & Bridge Construction	7-Year Warranty & Maintenance	Combined Total	
Total contract amount	\$80,000,000	\$7,000,000	\$87,000,000	
Total estimated contract costs	74,000,000	5,000,000	79,000,000	
Estimated Gross Profit	\$6,000,000	\$2,000,000	\$8,000,000	
Estimated Gross Profit % of Revenue	7.50%	28.57%	9.20%	
At 12/31/23				
	Construction Segment	W & M Segment	Non-Segmented	
Billings to date	\$24,000,000	\$-	\$24,000,000	
Cost incurred to date	\$18,500,000	\$-	\$18,500,000	
Percentage complete	25.00%	0.00%	23.42%	
Revenue recognition	\$20,000,000	\$-	\$20,373,418	
Gross profit recognition	\$1,500,000	\$-	\$1,873,418	
Net over-billing	\$4,000,000	\$-	\$3,626,582	
At 12/31/24 – Construction Completed (warranty period started 8/1/20)				
	Construction Segment	W & M Segment	Combined Segments	Non-Segmented
Billings to date	\$80,000,000	\$1,000,000	\$81,000,000	\$81,000,000
Cost incurred to date	\$74,000,000	\$250,000	\$74,250,000	\$74,250,000
Percentage complete	100.00%	5.00%	93.99%	93.99%
Revenue recognition	\$80,000,000	\$350,000	\$80,350,000	\$81,768,987
Gross profit recognition	\$6,000,000	\$100,000	\$6,100,000	\$7,518,987
Net (under) over-billing – warranty reserve	\$-	\$650,000	\$650,000	\$(768,987)
Segmented v. Non-Segmented Comparison				
	Segmented	Non-Segmented	Excess	
GAAP Contract Revenue Recognition	\$80,350,000	\$81,768,987	\$1,418,987	
GAAP Contract Profit Recognition	\$6,100,000	\$7,518,987	\$1,418,987	
IRS Contract Revenue Recognition	\$80,350,000	\$81,768,987	\$1,418,987	
IRS Contract Profit Recognition	\$6,100,000	\$7,518,987	\$1,418,987	
Deductible overbilling on warranty work	\$650,000	\$-		
Taxable underbilling on warranty reserve		\$(768,987)		



Claim Contract WIP Illustration

Davidson Construction Company | For the Period Ended 12/31/20 | Five claim-accounting scenarios for a single arena contract | **Exhibit J**

Job #	Description / Type / Owner	(1) Contract Amount	(2) Total Est. Cost	(3) Est. Gross Profit	(4) GP %	(5) Billings to Date	(6) Revenue Recognized	(7) Cost to Date	(8) Gross Profit to Date	(9) Under- bidding	(10) Over- bidding	(11) Cost-to- Cost %	(12) Est. Cost to Complete
#1 Contract — As Reported (cost to date includes additional \$1 million unexpected costs)													
13022	Johnny Cash Arena	20,000,000	18,000,000	2,000,000	10.00%	10,000,000	11,111,111	10,000,000	1,111,111	1,111,111	0	55.56%	8,000,000
13022C	Additional cost claim							0					0
	Total	20,000,000	18,000,000	2,000,000	10.00%	10,000,000	11,111,111	10,000,000	1,111,111	1,111,111	0		8,000,000
#2 Cost — Total Estimated Cost revised for additional \$1 million costs													
13022	Johnny Cash Arena	20,000,000	19,000,000	1,000,000	5.00%	10,000,000	10,526,316	10,000,000	526,316	526,316	0	52.63%	9,000,000
13022C	Additional cost claim							0					0
	Total	20,000,000	19,000,000	1,000,000	5.00%	10,000,000	10,526,316	10,000,000	526,316	526,316	0		9,000,000
#3 Cost — Estimated Cost and Contract Amount both revised for additional \$1 million													
13022	Johnny Cash Arena	21,000,000	19,000,000	2,000,000	9.52%	10,000,000	11,052,632	10,000,000	1,052,632	1,052,632	0	52.63%	9,000,000
13022C	Additional cost claim							0					0
	Total	21,000,000	19,000,000	2,000,000	9.52%	10,000,000	11,052,632	10,000,000	1,052,632	1,052,632	0		9,000,000
#4 Claim — Segmented costs only / no increase in contract amount													
13022	Johnny Cash Arena	20,000,000	18,000,000	2,000,000	10.00%	10,000,000	10,000,000	9,000,000	1,000,000	0	0	50.00%	9,000,000
13022C	Additional cost claim	0	1,000,000	(1,000,000)		0	0	1,000,000	(1,000,000)				0
	Total	20,000,000	19,000,000	1,000,000	5.00%	10,000,000	10,000,000	10,000,000	0	0	0		9,000,000
#5 Claim — Segmented with increase in contract amount (claim receivable)													
13022	Johnny Cash Arena	20,000,000	18,000,000	2,000,000	10.00%	10,000,000	10,000,000	9,000,000	1,000,000	0	0	50.00%	9,000,000
13022C	Additional cost claim	1,000,000	1,000,000	0		1,000,000	1,000,000	1,000,000	0			100.00%	0
	Total	21,000,000	19,000,000	2,000,000	9.52%	11,000,000	11,000,000	10,000,000	1,000,000	0	0		9,000,000



Contract Cash Flow Analysis

Davidson Construction Company | For the Year Ended December 31, 2024 | Net cash flow position by project manager | **Exhibit P**

Job #	Description	(1) Contract Amount	(2) Total Est. Cost	(3) Est. Gross Profit (1-2)	(4) Billings to Date	(5) Contract Recv. & Retainage	(6) Cash Collected (4-5)	(7) Cost to Date	(8) Accounts Payable	(9) Cash Paid (7-8)	(10) Net Cash Flow Pos. (6-9)	(11) CF to Contract (10/1)	(12) CF to Gross Profit (10/3)
Project Manager: Jack Daniels													
99001	Nashville I-40 Bridge	6,645,588	6,233,275	412,313	3,758,900	830,514	2,928,386	3,643,674	458,659	3,185,215	(256,829)	-3.86%	-62.29%
99002	Memphis Airport	750,000	712,000	38,000	709,000	183,000	526,000	599,000	66,500	532,500	(6,500)	-0.87%	-17.11%
99005	Lynchburg - Jack Daniels	1,800,000	1,550,000	250,000	150,000	150,000	0	130,000	65,000	65,000	(65,000)	-3.61%	-26.00%
99006	Carthage - Al Gore Home	450,000	410,000	40,000	0	0	0	36,000	12,000	24,000	(24,000)	-5.33%	-60.00%
	Subtotal	9,645,588	8,905,275	740,313	4,617,900	1,163,514	3,454,386	4,408,674	602,159	3,806,515	(352,329)	-3.65%	-47.59%
Project Manager: Elvis Presley													
99-12	Heartbreak Hotel	350,000	225,000	125,000	350,000	35,000	315,000	218,000	45,000	173,000	142,000	40.57%	113.60%
99-02	Dr. Nick Hospital	750,000	745,000	5,000	719,000	225,000	494,000	722,000	166,000	556,000	(62,000)	-8.27%	-1240.00%
99-04	Graceland Road	2,500,000	2,300,000	200,000	650,000	380,000	270,000	640,000	285,000	355,000	(85,000)	-3.40%	-42.50%
99-08	Cadillac Factory	80,000	75,000	5,000	0	0	0	10,000	8,000	2,000	(2,000)	-2.50%	-40.00%
	Subtotal	3,680,000	3,345,000	335,000	1,719,000	640,000	1,079,000	1,590,000	504,000	1,086,000	(7,000)	-0.19%	-2.09%
Project Manager: Dolly Parton													
99-09	Porter Waggoner Home	780,000	727,000	53,000	780,000	78,000	702,000	720,000	95,000	625,000	77,000	9.87%	145.28%
99-13	Country Music Hall of Fame	1,650,000	1,480,000	170,000	1,100,000	185,000	915,000	988,000	225,000	763,000	152,000	9.21%	89.41%
99-14	Dollywood	1,100,000	910,000	190,000	380,000	166,000	214,000	100,000	25,000	75,000	139,000	12.64%	73.16%
	Subtotal	3,530,000	3,117,000	413,000	2,260,000	429,000	1,831,000	1,808,000	345,000	1,463,000	368,000	10.42%	89.10%
	Company Totals	16,855,588	15,367,275	1,488,313	8,596,900	2,232,514	6,364,386	7,806,874	1,451,159	6,355,715	8,671	0.05%	0.58%