Appendix H

Sample Financial Statements

This appendix is nonauthoritative and is included for informational purposes only.

Gray shaded text in this appendix reflects guidance issued but not yet effective as of the date of this guide, September 1, 2021, but becoming effective on or prior to December 31, 2021, exclusive of any option to early adopt ahead of the mandatory effective date. Unless otherwise indicated, all unshaded text reflects guidance that was already effective as of the date of this guide.

The following sample financial statements of a nonpublic company construction contractor are included for illustrative purposes only and are not intended to establish reporting requirements. The sample financial statements are designed to illustrate presentation for a non-public contractor that has adopted the guidance in FASB *Accounting Standards Codification* (ASC) 606, *Revenue from Contracts with Customers*, and due to effective dates has not adopted FASB ASC 842, *Leases*, and 326-20, *Financial Instruments – Credit Losses*. Contractors that are public business entities and those nonpublic business entities who have adopted ASC Topic 842 or Subtopic 326-20 should also consider other applicable guidance. The sample financial statements do not include all of the accounts and transactions that might be found in practice. The notes indicate the subject matter generally required to be disclosed, but they should be expanded, reduced, or modified to suit individual circumstances or materiality considerations. In addition to the illustrative notes that are presented, some of which are more or less peculiar to construction contractors, the notes to a construction contractor's financial statements should include information concerning other matters that are not unique to construction contractors, for example, subsequent events, pension plans, postretirement benefits other than pensions, postemployment benefits, stock options, lease commitments, extraordinary items, accounting changes, and off-balance-sheet risks.

ACME Contractors Inc. and Subsidiaries
Consolidated Balance Sheet
December 31, 20X1 and 20X0

	20X1	20X0
Assets		
Current Assets		
Cash and cash equivalents		
Contracts receivable, net of allowance including unconditional retainage of $[ ] and $[ ] at December 31, 20X1 and 20X0, respectively [fn 1]		
Contract assets, including conditional retainage of $[ ] and $[ ] at December 31, 20X1 and 20X0, respectively [fn 2]		
Capitalized costs to fulfill contracts		
Current portion of note receivable		
Prepaid expenses and other current assets		
Total Current Assets		
Investments and Long-Term Receivables		
Restricted cash deposits		
Equity method investment in joint venture		
Note receivable, less current portion		

[fn 1] A receivable is defined in paragraph 4 of FASB ASC 606-45-10 as being a right to consideration that is not conditional upon anything other than the passage of time, and accordingly careful evaluation of retentions is necessary to determine whether such amounts should be classified within contracts receivable or within the contract's asset or liability (see paragraphs .142–.143 of chapter 2).

[fn 2] Under FASB ASC 606, certain contract specific assets are to be classified as contract assets. The FASB Master Glossary defines *contract assets* as "An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance)." These amounts include what has often been referred to as "costs and estimated earnings in excess of billings on uncompleted contracts" prior to adoption of the guidance in FASB ASC 606, and retainage that is subject to conditions other than the passage of time that may have previously been classified within contracts receivable.

The Financial Reporting Executive Committee (FinREC) recommends entities transition from using the term *costs and estimated earnings in excess of billings on uncompleted contracts.* That term closely aligned with the process of recognizing revenue based on the amount of gross profit earned on a contract for a period plus the costs incurred on the contract during the period as described in alternative B of paragraph 84 of FASB ASC 605-35-25 and then recognizing a contract asset when such amounts are greater than billings but it is not consistent with the process of recognizing revenue under FASB ASC 606. Furthermore, such description of the contract asset includes the phrase "in excess of billings" but may include amounts that have been invoiced but are contingent upon something other than the passage of time. Entities can choose to utilize the term "contract asset" to describe such amounts but are not required to. FinREC believes commonly used acceptable alternatives to the term "contract asset" may include:

- Contracts in progress
- Work in progress
- Revenue earned in excess of amounts received or receivable
- Unbilled revenues

Cash surrender value of officers' life insurance, net of policy loans		
Property, Plant and Equipment, net		
Other Assets [fn 3]		
Goodwill		
Trademarks and other intangible assets		
Other long-term assets		
Deferred tax, net		
Total Noncurrent Assets		
Total Assets		

Assets of the consolidated variable interest entity of $[ ] and $[ ] at December 31, 20X1 and 20X0, respectively, can only be used to settle obligations of the consolidated variable interest entity, which include liabilities of $[ ] and $[ ] at December 31, 20X1 and 20X0, respectively, for which the creditors do not have recourse to the general credit of the primary beneficiary which consolidates the variable interest entity. [fn 4]

[fn 3] Upon adoption of FASB ASU No. 2016-02, *Leases (Topic 842)*, "right of use" assets will be included on the balance sheet, along with a related lease liability. This table presents the balance sheet captions that may replace lease treatment under FASB ASC 840, *Leases.* (See footnote 17.)

Assets		
Other Assets		
Right of use assets – operating leases		
Right of use assets – financing leases		
Liabilities and Stockholders' Equity		
Current Liabilities		
Current portion of operating lease liabilities		
Current portion of financing lease liabilities		
Noncurrent Liabilities		
Operating lease liabilities, net of current portion		
Financing lease liabilities, net of current portion		

[fn 4] Paragraph 25 of FASB ASC 810-10-45 states that a reporting entity shall present each of the following separately on the face of the statement of financial position:

a. Assets of a consolidated variable interest entity (VIE) that can be used only to settle obligations of the consolidated VIE.

b. Liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary.

Alternative presentations to meet the disclosure requirement may include (1) separate line items for amounts meeting the criteria above or (2) parenthetical disclosure of applicable amounts on each asset and liability line item as applicable.

Liabilities and Stockholders' Equity

Current Liabilities

Line of credit		
Current maturities of long-term debt		
Accounts payable and accrued expenses, including $[ ] and $[ ] of subcontractor retainage payable at December 31, 20X1 and 20X0, respectively		
Contract liabilities net of conditional retainage of $[ ] and $[ ] at December 31, 20X1 and 20X0, respectively [fn 5]		
Current maturities of capital lease obligations [fn 6]		
Accrued losses on uncompleted contracts		
Total Current Liabilities		
Noncurrent Liabilities		
Long-term debt, net of current maturities		
Capital lease obligations, net of current maturities [fn 7]		
Payable to affiliates and other related parties, net of current maturities		
Other long-term liabilities		
Total Noncurrent Liabilities		
Total Liabilities		
Stockholders' Equity		

[fn 5] Under FASB ASC 606, certain contract-specific liabilities are to be classified as contract liabilities. The FASB Master Glossary defines *contract liabilities* as "An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due and included in receivables) from the customer." These amounts include what has often been referred to as "billings in excess of costs and estimated earnings on uncompleted contracts" prior to the adoption of the guidance in FASB ASC 606and customer deposits.

FinREC recommends entities transition from using the term *billings in excess of costs and estimated earnings on uncompleted contracts.* While that term closely aligned with the process of recognizing revenue based on the amount of gross profit earned on a contract for a period plus the costs incurred on the contract during the period as described in alternative B of paragraph 84 of FASB ASC 605-35-25 and then recognizing a contract liability when such amounts are less than billings, it is not consistent with the revenue recognition process under FASB ASC 606. Furthermore, such description of the contract liability includes the term "billings" but may include amounts that are contingent upon something other than the passage of time.

An entity can choose to use the term "contract liabilities" to describe such amounts but is not required to. FinREC believes commonly used acceptable alternatives to the term "contract liability" may include:

- Contracts in progress
- Work in progress
- Deferred revenue
- Payments received or receivable in excess of revenues earned

[fn 6] See footnote 3.

[fn 7] See footnote 3.

Common stock, no par value, [ ] shares authorized, [ ] issued and outstanding		
Additional paid-in capital		
Retained earnings		
Total Controlling Interest Stockholders' Equity		
Noncontrolling interest in subsidiary		
Total Stockholders' Equity		
Total Liabilities and Stockholders' Equity		

The accompanying notes are an integral part of these consolidated financial statements.

ACME Contractors Inc. and Subsidiaries
Consolidated Statement of Operations [fn 8]
for the Years Ended December 31, 20X1 and 20X0

	20X1	20X0
Contract Revenue		
Cost of Contract Revenue		
Gross Profit (Loss)		
Operating Expenses [fn 9]		
Selling		
General and administrative		
Gain on sale of property and equipment		
Operating Income (Loss)		
Other Income (Expenses)		
Rental income		
Interest income		
Interest expense [fn 10]		
Miscellaneous income, net		
Total Other Expenses, net		
Net Income (Loss) Before Provision for Income Tax Expense		
Provision for Income Tax Expense		
Net Income (Loss)		
Net Income (Loss) Attributable to Noncontrolling Interest		
Net Income (Loss) Attributable to Controlling Interest		

The accompanying notes are an integral part of these consolidated financial statements.

[fn 8] If neither period presented has a net loss, the statement may be titled "Consolidated Statement of Income."

[fn 9] Upon adoption of FASB ASU No. 2016-02, operating lease expenses should be included in income from continuing operations in the income statement. This table presents the income statement caption that may replace lease treatment under FASB ASC 840, *Leases.* (See footnote 17.)

Operating Expenses	
Lease expense	

[fn10] Upon adoption of FASB ASU No. 2016-02, finance lease interest expense associated with the related lease liability and amortization of the related right-of-use asset are not required to be presented as separate line items and shall be presented in a manner consistent with how the entity presents other interest expense and depreciation or amortization of similar assets, respectively. (see footnote 17.)

ACME Contractors Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity
for the Years Ended December 31, 20X1 and 20X0

	Common Stock Shares Outstanding	*Common Stock*	*Additional paid-in capital*	*Retained Earnings*	*Noncon-trolling Interest*	*Total Stockholders' Equity*
Balance—January 1, 20X1						
Issuance of common stock						
Dividends and distributions						
Net income (loss)						
Balance—December 31, 20X1						

The accompanying notes are an integral part of these consolidated financial statements.

ACME Contractors Inc. and Subsidiaries
Consolidated Statement of Cash Flows
for the Year Ended December 31, 20X1 and 20X0

	20X1	20X0
Cash Flows From Operating Activities [fn 11]		
Net income (loss)		
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization		
Gain on sale of property and equipment		
Provision for deferred income taxes		
Provision for bad debt expense		
Changes in assets and liabilities:		
Contracts receivable, including unconditional retainage		
Contract assets, including unconditional retainage		
Capitalized costs to fulfill contracts		
Prepaid expenses and other current assets		
Accounts payable and accrued expenses		
Contract liabilities, net of conditional retainage		
Accrued loss on uncompleted contracts		
Payable to affiliates and other related parties		
Net Cash Provided by (Used in) Operating Activities		
Cash Flows From Investing Activities		
Repayment of note receivable		
Investment in joint venture		
Proceeds from sale of property and equipment		

[fn 11] Upon adoption of FASB ASU No. 2016-02, the following should appear on the statement of cash flows in operating activities as noted for financing leases and operating leases. (see footnote 17.)

Cash Flows From Operating Activities

Net income

Adjustments to reconcile net income to net cash provided by operating activities:

Amortization of right of use asset − finance leases

Lease expense (the portion of the lease expense that amortized the right of use asset) − operating leases.

Changes in assets and liabilities:

Operating lease liabilities (For finance leases, the principal portion of the cash payment is reflected in the financing section as principal paid. See FN12.)

Purchases of property and equipment		
Net Cash Provided by (Used in) Investing Activities		
Cash Flows From Financing Activities [fn 12]		
Payments on line of credit, net		
Principal payments on long-term debt		
Principal borrowings on long-term debt		
Principal payments on capital lease obligations		
Proceeds from issuance of common stock		
Dividends paid		
Net Cash Provided by (Used in) Financing Activities		
Net Change in Cash and Cash Equivalents, Including Restricted Cash		
Cash, Cash Equivalents and Restricted Cash—Beginning of Year		
Cash, Cash Equivalents and Restricted Cash—Ending of Year		
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest		
Income taxes		
Supplemental Disclosure of Noncash Investing and Financing Activities		
Purchase of vehicles by entering into long-term debt		

The accompanying notes are an integral part of these consolidated financial statements.

[fn 12] Upon adoption of FASB ASU No. 2016-02, the following should appear on the statement of cash flows as financing activities noted for financing leases. (See footnote 17.)

Cash Flows From Financing Activities

Principal payments on finance lease liabilities (the principal portion of the cash payment)

Note 1 — Nature of Operations and Significant Accounting Policies

Nature of Operations

ACME Contractors, Inc. and Subsidiaries ("the Company") operates under the following industries:

Subsidiary A — Provides construction, maintenance, repair, and upgrade of water and wastewater facilities in the Southeastern United States.

Subsidiary B — Provides installation, service and maintenance of equipment used for the sale of water, wastewater, and electrical control systems for commercial and residential clients in the Southeastern United States.

Significant Accounting Policies

Basis of Consolidation and Variable Interest Entities

The consolidated financial statements include the accounts of ACME Contractors, Inc. and its wholly owned subsidiary Subsidiary A. The Company has identified Subsidiary B as a variable interest entity of Subsidiary A, which is considered the primary beneficiary and has a controlling financial interest in Subsidiary B. See Note 14 for additional discussion of Subsidiary B, a variable interest entity. Amounts pertaining to the noncontrolling ownership interests held by equity owners of Subsidiary B in the operating results and financial position of Subsidiary B are reported as noncontrolling interests. The consolidation of Subsidiary B does not change any legal ownership and does not change the assets or liabilities and equity of ACME Contractors, Inc. as a separate legal entity. All intercompany accounts and transactions have been eliminated in consolidation.

Variable Interest Entities

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist:

- The total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties.

- As a group, the holders of the entity's equity investment at risk do not have the decision-making power, through voting or similar rights, over the activities that most significantly impact the entity's economic performance or do not have the obligation to absorb expected losses or receive the expected residual returns of the entity.

- The voting rights of some investors are not proportionate to their obligation to absorb expected losses or receive residual returns and substantially all of the entities' activities involve or are conducted on behalf of an investor with disproportionately few voting rights.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's activities that most significantly impact its economic performance and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

The Company must consolidate a VIE when determined to be the primary beneficiary. In addition to consolidated VIEs, the Company has significant variable interests in other VIEs that are not consolidated because the Company is not the primary beneficiary.

All facts and circumstances are taken into consideration when determining whether the Company has variable interests triggering primary beneficiary status that would require consolidation of the VIE or otherwise require disclosure in the Company's consolidated financial statements. In many cases, it is qualitatively clear based on whether:

- The Company has the power to direct the activities that most significantly impact the VIE's economic performance and, if so, whether that power is unilateral or shared, and
- The Company is obligated to absorb losses of or has a right to receive benefits from the VIE that could be potentially significant to the VIE.

In other cases, a more detailed qualitative analysis and possibly a quantitative analysis are required to make such a determination.

The Company monitors the consolidated and unconsolidated VIEs to determine if any reconsideration events have occurred that could cause any of them to no longer be a VIE. The Company reconsiders whether it is the primary beneficiary of a VIE on an ongoing basis. A previously unconsolidated VIE is consolidated when the Company becomes the primary beneficiary. A previously consolidated VIE is deconsolidated when the Company ceases to be the primary beneficiary or the entity is no longer a VIE. fn 13

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fn 13 *[Include the following if the private company accounting alternative for common control leasing arrangements is elected under ASU No. 2014-07,* Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements [a consensus of the Private Company Council.*]*

The Company elected the private company accounting alternative for common control leasing arrangements. Under this alternative, private companies are no longer required to apply VIE guidance to certain common control leasing arrangements when all of the following conditions are met:

- The Company and legal entity are under common control.
- A lease arrangement exists between the Company (lessee) and the legal entity (lessor).
- Substantially all activities between the Company and the lessor are related to leasing activities, including supporting leasing activities.
- If the Company explicitly guarantees or provides collateral for any obligation of the lessor related to the asset leased by the Company, the principal amount of the obligation at inception of the guarantee or collateral arrangement does not exceed the value of the leased asset at the inception of the guarantee or collateral arrangement.

[Include the following if the private company accounting alternative is elected under ASU No. 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. ASU No. 2018-17 supersedes ASU No. 2014-07 once adopted.]*

The Company elected the private company accounting alternative for certain qualifying common control arrangements. Under this alternative, private companies are no longer required to apply VIE guidance to certain common control arrangements when all of the following conditions are met:

- The Company and legal entity are under common control. This determination only considers the direct and indirect voting interest held by the Company's parent in the Company and the legal entity.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Management periodically evaluates estimates used in the preparation of the consolidated financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation. It is reasonably possible that changes may occur in the near term that would affect management's estimates with respect to the percentage of completion method, allowance for doubtful accounts and accrued expenses.

Revisions in estimated revenue from contracts are made in the year in which circumstances requiring the revision become probable.

Balance Sheet Classifications

The Company includes in current assets and liabilities the following amounts that are in connection with construction contracts that may extend beyond one year: contract assets and contract liabilities (including retainage invoiced to customers contingent upon anything other than the passage of time), capitalized costs to fulfill contracts retainage payable to sub-contractors and accrued losses on uncompleted contracts. A one-year time period is used to classify all other current assets and liabilities when not otherwise prescribed by the applicable accounting principles.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less at acquisition as cash and cash equivalents in the accompanying consolidated balance sheet. The Company has interest-bearing deposits with financial institutions that maintained federal insurance in full for all accounts and limited coverage up to $[ ] per financial institution. The portion of the deposits in excess of this amount is not subject to such insurance and represents a credit risk to the Company. At times, balances held at each financial institution may exceed $[ ], which represents a credit risk to the Company. At December 31, 20X1, there were no uninsured deposits.

- Neither the Company nor the legal entity is under control of a public business entity.
- The legal entity under common control is not a public business entity.
- The Company does not directly or indirectly have a controlling financial interest in the legal entity. This determination excludes consideration of a controlling financial interest under the VIE guidance and only considers the voting interest model.

Contracts Receivable

Contracts receivable include billed and unbilled amounts for services provided to customers for which the Company has an unconditional right to payment. Billed and unbilled amounts for which payment is contingent on anything other than the passage of time are included in contract assets and contract liabilities on a contract-by-contract basis.

When payment of the retainage is contingent upon the Company fulfilling its obligations under the contract it does not meet the criteria to be included in contracts receivable and remains in the contract's respective contract asset or contract liability, determined on a contract-by-contract basis. Retainage for which the Company has an unconditional right to payment that is only subject to the passage of time are included in contracts receivable. [fn 14]

The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Contracts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts that are unpaid after the due date bear interest at [ ]% per month. Accounts past due more than 60 days are considered delinquent. Interest continues to accrue on delinquent accounts until the account is past due more than one year, at which time interest accrual ceases and does not resume until the account is no longer classified as delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Revenue Recognition

For contracts that are within the scope of FASB ASC 606, the Company performs the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

Performance Obligations and Recognition Method

The Company evaluates whether two or more contracts should be combined and accounted for as one single performance obligation and whether a single contract should be accounted for as more than one performance obligation. ASC 606 defines a performance obligation as a contractual promise to transfer a distinct good or service to a customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company's evaluation requires significant judgment and the decision to combine a group of contracts or separate a contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. The majority of the Company's contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract and, therefore, is not distinct. However, occasionally the Company has contracts with multiple performance obligations.

[fn 14] See paragraphs .142–.143 of chapter 2.

For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using the observable stand-alone selling price, if available, or alternatively the best estimate of the stand-alone selling price of each distinct performance obligation in the contract. The primary method used to estimate stand-alone selling price is the expected cost plus a margin approach for each performance obligation.

Revenue related to contracts with customers is recognized over time as work is completed because of the continuous transfer of control to the customer (typically using an input measure such as costs incurred to date relative to total estimated costs at completion to measure progress). Costs that do not depict progress toward satisfaction of the performance obligation are included in contract costs with revenue recognized to the extent of such costs without any profit and include items such as uninstalled materials and re-work.

Revenue on contracts with customers is measured based on consideration specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Contract revenues are primarily derived from fixed-price construction contracts. The Company has determined that generally these fixed-price construction projects provide a distinct service and, therefore, qualify as one performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. Revenue is recognized over time, because of the continuous transfer of control to the customer as work is performed at the customer's site and, therefore, the customer controls the asset as it is being constructed. The cost-to-cost measure of progress best depicts the transfer of control of assets to the customer, which occurs as costs are incurred**.**

Revenues from time-and-material contracts are billed to customers as work is performed. The Company determined that generally time-and-material contracts contain a single performance obligation as the services and maintenance provided by the contracts are considered a series that are substantially the same and have the same pattern of transfer to the customer. The performance obligation is considered to be satisfied over time since the customer simultaneously receives and consumes the benefits of the time-and-material contracts.

Cost of revenues earned include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. The cost of significant uninstalled materials, re-work, or scrap is generally excluded from the cost-to-cost measure of progress as it is not proportionate to the entity's progress in satisfying the performance obligation. Costs to fulfill a contract, including mobilization costs, prior to substantive work beginning are capitalized as incurred and amortized over the expected duration of the contract. During the years ended December 31, 20X1 and 20X0, the Company amortized to cost of contracts $[ ] and $[ ] of the capitalized costs to fulfill contracts, respectively. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

The Company's contracts may include retention provisions to provide assurance to customers that the Company will perform in accordance with the contract terms. The retention provisions are not considered a significant financing component. The balances billed but not paid by customers pursuant to these provisions generally become due upon completion and acceptance of the project by the customer. The

Company has determined that there are no significant financing components included in construction contracts as of December 31, 20X1.

Contract Estimates including Claims, Unapproved Change Orders and Variable Consideration

Accounting for long-term contracts with customers involves the use of various techniques to estimate total transaction price, total estimated costs at completion, and progress toward satisfaction of performance obligations which are used to recognize revenue earned. Unforeseen events and circumstances can alter the estimate of the costs associated with a particular contract. Total estimated costs at completion, can be impacted by changes in productivity, scheduling, the unit cost of labor, subcontracts, materials, and equipment. Additionally, external factors such as weather, customer needs, customer delays in providing permits and approvals, labor availability, governmental regulation and politics may affect the progress of a project's completion, and thus the timing and amount of revenue recognition. To the extent that original cost estimates are modified, estimated costs to complete increase, delivery schedules are delayed, or progress under a contract is otherwise impeded, cash flow, revenue recognition, and profitability from a particular contract may be adversely affected.

The nature of the Company's contracts gives rise to several types of variable consideration, including contract modifications (unapproved change orders and claims), liquidated damages, volume discounts, performance bonuses, shared savings, incentive fees, and other terms that can either increase or decrease the transaction price. Transaction price for contracts is required to include evaluation of variable consideration to which the Company has an enforceable right to compensation or obligation for a reduction (as for liquidated damages), which can result in increases or decreases to a contract's transaction price. The Company estimates variable consideration as the most likely amount to which it expects to be entitled. The Company includes variable consideration in the estimated transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the anticipated performance and all information (historic, current, and forecasted) that is reasonably available to the Company. The effect of a change in variable consideration on the transaction price of a performance obligation is recognized as an adjustment to revenue on a cumulative catch-up basis.

Contract modifications can result from changes in contract specifications or requirements that either creates new or changes existing enforceable rights and obligations of the parties to the contract. The Company considers unapproved change orders to be contract modifications for which customers have agreed to changes in the scope of the contract but have not agreed to the price.

The Company considers claims to be contract modifications for which the Company has sought, or will seek, to collect from customers, or others, for customer-caused changes in contract specifications or design, or other customer-related causes of unanticipated additional contract costs on which there is no contractual agreement with the customer for changes in either the scope or price of the contract. Claims can also be caused by non-customer-caused changes, such as weather delays, work stoppages or other unanticipated events.

Costs associated with contract modifications are included in the estimated costs to complete the contracts and are treated as project costs when incurred. In most instances, contract modifications are for goods or services that are not distinct and, therefore, are accounted for as part of the existing contract. In those instances, the effect of a contract modification on the transaction price, and the measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue on a cumulative catch-up basis.

To the extent unapproved change orders and claims reflected in the transaction price are not resolved in the Company's favor, or to the extent other contract provisions reflected in the transaction price are not earned, there could be reductions in or reversals of previously recognized revenue.

As a significant change in one or more of these estimates could affect the revenue and profitability of the Company's long-term construction contracts, the Company reviews and updates contract-related estimates regularly. The Company recognizes adjustments in estimated revenue on contracts on a cumulative catch-up basis Under this method, the cumulative impact of the revenue adjustment is recognized in the period the adjustment is identified. Revenue in future periods of contract performance are recognized using the adjusted estimate. If at any time the contract estimates indicate an anticipated loss on a contract, the projected loss is recognized in full, including the reversal of any previously recognized profit, in the period it is identified and recognized as an accrued loss on uncompleted contracts on the consolidated balance sheet. No adjustments resulting from revisions to estimates on any individual contract was material to the financial statements for the years ended December 31, 20X1 or 20X0.

Contract Assets and Contract Liabilities

The timing of when the Company bills their customers on long-term construction contracts is generally dependent upon agreed-upon contractual terms, which may include milestone billings based on the completion of certain phases of the work, or when services are provided. When billings occur subsequent to revenue recognition as a result of contingencies, the result is in unbilled revenue, which is included in contract assets. Additionally, the Company may receive advances or deposits from customers before revenue is recognized, resulting in deferred revenue, which is included in contract liabilities.

Retainage for which the Company has an unconditional right to payment that is only subject to the passage of time are classified as contracts receivable. Retainage subject to conditions other than the passage of time do not meet the definition of a receivable and are therefore included in contract assets and contract liabilities, as determined on a contract by contract basis.

Contract assets represent revenues recognized in excess of amounts paid or payable (contract receivables) to the Company on uncompleted contracts. Contract liabilities represent the Company's obligation to perform on uncompleted contracts with customers for which the Company has received payment or for which contract receivables are outstanding. The following table provides information about contract assets and contract liabilities from contracts with customers as of December 31, 20X1 and 20X0:

	20X1		20X0
Revenue recognized in excess of amounts paid or payable (contract receivables) to the Company on uncompleted contracts (contract asset), excluding retainage	$		$
Retainage included in contract assets due to being conditional on something other than solely passage of time			
Total contract assets	$		$
Payments received or receivable (contract receivables) in excess of revenue recognized on uncompleted contracts (contract liability), excluding retainage	$		$

Retainage included in contract liabilities due to being conditional on something other than solely passage of time [fn 15]			
Total contract liabilities	$		$

Transaction Price Allocated to the Remaining Performance Obligations

As of December 31, 20X1, the Company had approximately $[ ] of estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially satisfied). See Note 15, *Backlog*, for further discussion.

Warranties

Contracts generally include assurance-type warranties that the Company's performance is free from material defect and consistent with the specifications of the contracts, which do not give rise to a separate performance obligation. Historically, the Company has not experienced significant warranty costs.

Disaggregation of Revenue [fn 16]

The following table presents the Company's revenues disaggregated by type of service of such revenue recognized during the years ended December 31, 20X1 and 20X0:

	20X1	20X0
Type of service provided		
Construction, of water and wastewater facilities	$	$
Installation and upgrade of water and wastewater facilities, and electrical control systems	$	$
Service and maintenance of equipment used for the sale of water, wastewater, and electrical control systems for commercial and residential clients	$	$

[fn 15] Subcontractor retentions payable should not be included within "Contract liabilities" on the balance sheet, but rather included within "Accounts Payable and Other Expenses" on the balance sheet.

[fn 16] FASB ASC 606-10-50-7 states that a nonpublic business entity (that is, except for a public business entity, a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, or an employee benefit plan that files or furnishes financial statements with or to the SEC) may elect not to apply the quantitative disaggregation disclosure guidance in paragraphs 5–6 of FASB ASC 606-10-50 and paragraphs 89–91 of FASB ASC 606-10-55. If an entity elects not to provide those disclosures, the entity shall disclose, at a minimum, revenue disaggregated according to the timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred to customers over time) and qualitative information about how economic factors (such as type of customer, geographical location of customers, and type of contract) affect the nature, amount, timing, and uncertainty of revenue and cash flows.

The Company has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payers (for example, customer, governmental programs and others) that have different reimbursement and payment methodologies
- Geography of the service location
- Company's line of business that provided the service

Inventories

Inventories consist of [____________, ____________ and ____________]. Inventories are stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or net realizable value.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, which range from [ ] to [ ] years. Additions, renewals, and betterments that significantly extend the life of the asset are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

For assets sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any related gain or loss is reflected in income for the period.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is present when the sum of undiscounted estimated future cash flows expected to result from use of the assets is less than carrying value. If impairment is present, the carrying value of the impaired asset is reduced to its fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. During the year ended December 31, 20X1, there was no impairment losses recognized for long-lived assets.

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated, and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest method. The unamortized debt issuance costs are reflected on the balance sheet as a direct deduction from the outstanding balance owed on the long-term debt.

Leases[fn 17]

The Company has adopted FASB ASC 842, *Leases*, with a date of initial application of January 1, 20X0. For leases with a lease term greater than one year, the Company recognizes a lease asset for its right to use the underlying leased asset and a lease liability for the corresponding lease obligation. The Company determines whether an arrangement is or contains a lease at contract inception. Operating leases with a duration greater than one year are included in operating lease right-of-use assets, current portion operating lease liabilities, and operating lease liabilities, net of current portion in the Company's consolidated balance sheet at December 31, 20X1. Operating lease right-of-use assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the Company uses a risk-free rate[fn 18] of a period comparable with that of the lease term. The Company considers the lease term to be the noncancelable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease if the Company is reasonably certain to exercise the option, (2) terminate the lease if the Company is reasonably certain not to exercise that option, and (3) extend, or not to terminate, the lease in which exercise of the option is controlled by the lessor.

[fn 17] In February 2016, FASB released ASU No. 2016-02. Among several changes to the lease guidance, it will require that lessees record nearly all leases on the balance sheet. Lessors will see some changes as well, largely made to align with the revised lessee model and FASB's new revenue recognition guidance. ASU No. 2016-02 had an effective date for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities; NFP entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market (referred to as public NFP entities); and employee benefit plans that file or furnish financial statements with or to the United States. The original effective date for all other entities was for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

In November 2019, the board issued ASU No. 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. The amendments in ASU No. 2019-10 deferred the effective dates for leases for entities in the "all other" category by an additional year from the original effective date in ASU No. 2016-02.

In June 2020, FASB released ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, further delaying the effective date of both ASU No. 2014-09 and ASU No. 2016-02. The amendments in ASU No. 2020-05 further defer the effective date for one additional year for entities in the "all other" category. Therefore, under the amendments, ASU No. 2016-02 is effective for entities within the "all other" category for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application continues to be permitted, which means that an entity may choose to implement ASU No. 2016-02 before those deferred effective dates.

Readers are encouraged to consult the full text of these ASUs on FASB's website at www.fasb.org.

Note that the "all other" category does not include public business entities; NFP entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market (referred to as public NFP entities); and employee benefit plans that file or furnish financial statements with or to the SEC and public NFP entities that have not yet issued their financial statements (or made financial statements available for issuance).

[fn 18] FASB ASC 842-20-30-3 provides a practical expedient for nonpublic business entities, which allows a lessee to use a risk-free rate for a period comparable to the lease term. Use of a risk-free rate is an accounting policy election, and once elected must be utilized consistently for all leases.

The operating lease right-of-use assets also include any lease payments made and exclude lease incentives received or receivable. Lease expense is recognized on a straight-line basis over the expected lease term. Variable lease expenses are recorded when incurred.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs for the year ended December 31, 20X1 and December 31, 20X0 were $[ ] and $[ ], respectively.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*. The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company recognizes a net deferred tax asset or liability based on the tax effects of the differences between the book and tax bases of assets and liabilities. Enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from the change in the net deferred tax asset or liability between periods. The deferred tax asset is reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, the tax position will be realized or sustained upon examination. The term “more likely than not” means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. As of December 31, 20X1, there were no uncertain tax positions.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Concentration Risk

At December 31, 20X1, approximately [ ]% of the Company’s workforce is union represented subject to collective bargaining agreements, of which approximately [ ]% are represented by unions whose existing labor agreements will expire on various dates in 20X2. The individual unions may limit the Company’s flexibility in dealing with its workforce. Any work stoppage or instability within the workforce could delay the ability to satisfy commitments under existing contracts with customers in the manner management anticipated when developing contract estimates used in preparing these financial statements. This could cause severe negative impacts to the Company, including possible penalties for delayed contract performance, strained relationships with existing customers, impacts on the Company’s ability to obtain future contracts, and cause a loss of revenues, any of which could adversely affect our operations.

Subsequent Events

These consolidated financial statements have been updated for subsequent events occurring through June 19, 20X2, which is the date these consolidated financial statements were available to be issued.

Investments in Joint Venture

The Company has entered into joint venture agreements in connection with certain construction projects. The Company uses the equity method to record the investment in a joint venture in its consolidated balance sheets and uses the proportionate consolidation method to record the Company's portion of the joint ventures' contract revenues, cost of contract revenues, operating expenses and other income and expenses in the consolidated statements of income.

Under the equity method of accounting, the investee accounts are not reflected within the Company's consolidated balance sheets. The Company's carrying value of the investments is reflected in the caption "Equity method investment in joint venture" in the Company's consolidated balance sheets (see Note 5). If the Company's carrying value in the investment is reduced to zero, no further losses are recorded in the Company's financial statements unless the Company guaranteed obligations of the investee or has committed additional funding. When the investee subsequently reports income, the Company will not increase the carrying value on the consolidated balance sheet until its share of such income equals the amount of its share of losses not previously recognized.

Note 2 — Contracts Receivable

Contracts receivable consisted of the following at December 31, 20X1 and 20X0:

	20X1	**20X0**
Contracts Receivable	$	$
Completed contracts		
Completed in progress		
Retainage receivable[fn 19]		
Less allowance for doubtful accounts		
	$	$

[fn 19] A *receivable* is defined in FASB ASC 606-45-10-4 as being a right to consideration that is not conditional upon anything but the passage of time, and accordingly careful evaluation of retentions is necessary to determine whether such amounts should be classified within contracts receivable or within the contract's asset or liability (see paragraphs .142–.143 of chapter 2). If retainage is contingent upon anything other than the passage of time the amount of such retainage should be classified with the related contract's contract asset or contract liability.

Note 3 — Revenue Recognized and Costs Incurred on Uncompleted Contracts

The following is a summary of contracts in progress at December 31, 20X1 and 20X0:

	20X1	20X0
Costs incurred on uncompleted contracts	$	$
Estimated gross profit		
Contract revenue earned on uncompleted contracts		
Billings to date (including conditional retainage)		
Less conditional retainage		
Billings to date (excluding conditional retainage)		
	$	$

These amounts are included in the accompanying balance sheets under the following at December 31, 20X1 and 20X0:

	20X1	20X0
Contract assets	$	$
Contract liabilities		
Accrued loss uncompleted contracts		
	$	$

Note 4 — Equity Investments

The Company's equity investments are composed of the following at December 31:

	20X1	20X0
JV-I, LLC	$	$
JV-II, LLC		
Research, LLC		
	$	$

The Company has entered into various joint venture agreements for construction projects. The Company has equity interest of 50% of JV I, LLC (JV-I) and JV II, LLC (JV-II). The aggregate contract value of these joint ventures was approximately $[ ] and $[ ] at December 31, 20X1 and 20X0, respectively. Total revenues recognized by the joint ventures were $[ ] and $[ ] for the years ended December 31, 20X1 and 20X0, respectively. Included in the accompanying consolidated statements of operations are revenues of $[ ] and $[ ], which represents the Company's proportionate share of the joint venture revenues for the years ended December 31, 20X1 and 20X0, respectively.

The Company has a 45% equity interest in Research, LLC (Research) that it accounts on the equity method.

Summarized financial information for the equity investments as of and for the year ended December 31, 20X1 is as follows:

	JV-1	JV-II	Research
Total assets	$	$	$
Total liabilities			
Net income			
	$	$	$

Summarized financial information for the equity investments as of and for the year ended December 31, 20X0 is as follows:

	JV-1	JV-II	Research
Total assets	$	$	$
Total liabilities			
Net income			
	$	$	$

Note 5 — Note Receivable

The Company has a note receivable relating to the sale of certain assets in years prior to 20X0. The note receivable bears interest at [ ]%. The note receivable calls for monthly payments of $[ ], including interest, with the balance of all principal and unpaid interest due in December 20X3. At December 31, 20X1, $[ ] was outstanding on the note receivable. Interest income related to the note receivable was $[ ] for the year ended December 31, 20X1.

Future maturity of the note receivable is as follows:

Years ending December 31,	
20X2	$
20X3	
	$

Note 6 — Property and Equipment

Property and equipment consists of the following at December 31, 20X1 and 20X0:

	20X1	20X0
Assets		
Land improvements	$	$
Buildings and improvements		
Machinery and equipment		

Furniture and fixtures		
Accumulated depreciation and amortization		
Net property and equipment	$	$

Depreciation and amortization expense related to property and equipment was $[ ] and $[ ], for the periods ending December 31, 20X1 and 20X0, respectively.

Note 7 — Financing Arrangements

Line of Credit

The Company has a $[ ] line of credit bearing interest at an annual rate equal to the bank's prime rate plus [ ]% ([ ]% at December 31, 20X1). There was $[ ] outstanding at December 31, 20X1. The line of credit is secured by the assets of the Company and is guaranteed by the stockholders. The line of credit is scheduled to mature in September 20X2.

The line of credit contains certain financial covenants, including a minimum tangible net worth ratio, minimum debt to tangible net worth ratio and a minimum net profit, as defined in the agreements.

Long-Term Debt

Long-term debt consists of the following notes payable at December 31, 20X1 and 20X0:

	20X1	20X0
Note payable, bank (A)	$	$
Other		
Less unamortized debt issuance costs	$	$
Less current maturities	$	$
	$	$

(A) Due December 20X7; payable $[ ] annually plus quarterly interest at prime, plus [ ]%; secured by property and equipment and computer software; unrestricted compensating cash balances and certain other requirements; guaranteed and partially secured by assets of majority stockholder. The effective interest rate was [ ]% and [ ]% for the years ended December 31, 20X1 and 20X0, respectively.

In connection with this note payable to bank, the [Company] is required, among other things, to maintain certain financial conditions, including stockholders' equity of at least $[ ]. The bank has formally approved noncompliance with this requirement through [December 31,].

Aggregate maturities of all long-term financing arrangements are as follows:

Years ending December 31,	
20X2	$

Years ending December 31,	
20X3	
20X4	
20X5	
20X6	
Thereafter	$
	$

Note 8 — Stock Redemption Agreements Leases [fn 20]

The Company has stock redemption agreements with all of its shareholders. Under the terms of the agreement, the Company is required to purchase all of the stockholder's shares upon death, disability, retirement, or termination. Additionally, beginning at age 63 through age 67, shareholders are required to sell their stock back to the Company. The Company annually establishes a per share transaction value based upon a formula established in the stockholder agreements and approved by the board of directors. At December 31, 20X1, the Company has outstanding stock purchase commitments with its stockholders totaling [ ] shares at purchase prices ranging up to [$] per share.

Note 9 — Leases

Capital Leases

The Company leases certain specialized construction equipment under leases classified as capital leases. The leased equipment is amortized on a straight-line basis over [ ] years. Total accumulated amortization related to the leased equipment is $[ ] and $[ ] at December 31, 20X1 and 20X0, respectively. The following is a schedule showing the future minimum lease payments under capital

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[fn 20] FASB ASC 505-10-50-4 states that an entity that issues preferred stock (or other senior stock) that has a preference in involuntary liquidation considerably in excess of the par or stated value of the shares shall disclose the liquidation preference of the stock (the relationship between the preference in liquidation and the par or stated value of the shares). That disclosure shall be made in the equity section of the statement of financial position in the aggregate, either parenthetically or in short, rather than on a per-share basis or through disclosure in the notes.

Further, FASB ASC 505-10-50-5 states that an entity shall disclose both of the following within its financial statements (either on the face of the statement of financial position or in the notes thereto):

a. The aggregate or per-share amounts at which preferred stock may be called or is subject to redemption through sinking-fund operations or otherwise

b. The aggregate and per-share amounts of arrearages in cumulative preferred dividends.

Readers should also consider the guidance in FASB ASC 480-10-S99-3A and 260-10-S99 to determine if disclosing additional information would be helpful for users of the financial statements (required for public companies).

leases by years and the present value of the minimum lease payments as of December 31, 20X1. The interest rate related to the lease obligation is [ ]% and the maturity date is January 20X4.

Years ending December 31,	
20X2	$
20X3	
20X4	
Total minimum lease payments	$
Less: Amount representing interest	$
Present value of minimum lease payments	$

Operating Leases — Lessor

The Company has various noncancelable sublease agreements with lessees to occupy space in various operating facilities. The sublease agreements are classified as operating leases and call for monthly payments ranging from $[ ] to $[ ]. The subleases expire at various times through November 20X3. The agreements do not contain price escalations.

Total rental income amounted to $[ ] and $[ ] for the years ended December 31, 20X1 and 20X0.

Future minimum rental income is as follows:

Years ending December 31,	
20X2	$
20X3	
	$

Operating Leases — Lessee

The Company leases its main operating facility under a noncancelable lease classified as an operating lease. Monthly lease payments are $[ ]. The lease expires in June 20X4.

In addition, the Company has various noncancelable operating leases for regional operating facilities classified as operating leases. Monthly lease payments range from $[ ] to $[ ]. The leases expire at various dates through April 20X7.

The Company has various noncancelable leases for office equipment classified as operating leases. Monthly lease payments range from $[ ] to $[ ]. The leases expire at various dates through November 20X4.

Future Minimum Lease Payments

Aggregate future minimum lease payments on all noncancelable operating leases are as follows:

Years ending December 31,	
20X2	$
20X3	
20X4	
20X5	
20X6	
Thereafter	

Total rent expense, for facility and equipment operating leases, was $[ ] and $[ ] for the years ended December 31, 20X1 and 20X0.

Note 9 — Leases[fn 21]

The Company has entered into the following lease arrangements:

[fn 21] ASB ASU No. 2016-02; FASB ASU No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842;* FASB ASU No. 2018-10, *Codification Improvements to Topic 842, Leases;* FASB ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements;* FASB ASU No. 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors;* and FASB ASU No. 2019-01, *Leases (Topic 842): Codification Improvements,* issued between February 2016 and January 2019, reflect FASB's efforts to update guidance on leases.

In November 2019, FASB released ASU No. 2019-10, which modified the implementation date of the standard, as follows:

1. Public business entities; not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market; and employee benefit plans that file or furnish financial statements with or to the SEC for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.
2. All other entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Because FASB ASU No. 2016-02 already is effective for all entities within item (1) above (that is, including not-for-profit conduit bond obligors), FASB retained the effective date for those entities, including smaller reporting companies. FASB also decided, consistent with having bucket two be at least two years after the initial effective date, to defer the effective date for all other entities by an additional year. Therefore, FASB ASU No. 2016-02 is effective for entities within item (2) above for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early application continues to be allowed.

In June 2020, FASB issued ASU No. 2020-05, which is effective upon issuance.

The amendments in FASB ASU No. 2020-05 defer the effective date for one year for entities in the "all other" category and public not-for-profit entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASU No. 2016-02. Therefore, under the amendments, FASB ASU No. 2016-02 is effective for entities within the "all other" category for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Additionally, FASB ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, for public not-for-profit entities that have not yet issued financial statements (or made available for issuance) reflecting the adoption of FASB ASU No. 2016-02. Early application continues to be permitted, which means that an entity may choose to implement *Leases* before those deferred effective dates.

Finance Leases

These leases mainly consist of [equipment, etc.] for the use of [ ]. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

Operating Leases

The Company leases office space for the branch sales offices that expire in various years through [20__]. These leases generally contain renewal options for periods ranging from [ ] to [ ] years and require the Company to pay all executory costs (property taxes, maintenance, and insurance). Lease payments have an escalating fee schedule, which range from a [ ] to [ ]% increase each year. Termination of the leases is generally prohibited unless there is a violation under the lease agreement. A portion of the leased space is subleased under leases expiring over the next [ ] years.

Short-Term Leases

The Company leases certain equipment on a seasonal demand basis. The Company has elected the practical expedient for these short-term seasonal demand equipment leases as the lease terms are less than 12 months.[fn 22] Total short-term lease expense included in operating expenses for the year ending December 31, 20X1 and 20X0, was $[ ] and $[ ], respectively.

All Leases

The Company has no material related-party leases.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Quantitative Disclosures

The lease cost and other required information for the years ended December 31, 20X1 and 20X0, are:

	20X1	20X0
Lease cost	$	$
Finance lease cost		
Amortization of right-of-use asset		
Interest on lease liabilities		
Operating lease cost		
Short-term lease cost		
Total lease cost		

[fn 22] Per FASB ASC 842-20-25-2, as an accounting policy, a lessee may elect not to apply the recognition requirements in this subtopic to short-term leases. Instead, a lessee may recognize a charge to expense the lease payments in on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. The accounting policy election for short-term leases shall be made by class of underlying asset to which the right of use relates.

	20X1	20X0
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$	$
Financing cash flows from finance leases		
Operating cash flows from operating leases		
Weighted-average remaining lease term		
Finance leases	[ ] years	[ ] years
Operating leases	[ ] years	[ ] years
Weighted-average discount rate		
Finance leases		
Operating leases		

Future minimum lease payments and reconciliation to the consolidated balance sheet at December 31, 20X1, are as follows:

	Finance Leases	Operating Leases
20X2	$	$
20X3		
20X4		
20X5		
20X6		
Thereafter		
Total future undiscounted lease payments	$	$
Less interest		
Lease liabilities	$	$

Note 10 — Income Taxes

The provision for income tax expense for the years ended December 31, 20X1 and 20X0 consists of the following:

	20X1	20X0
Current	$	$
Deferred		
Provision for Income Tax Expense	$	$

Significant components of the Company’s deferred income tax assets and liabilities are as follows at December 31, 20X1 and 20X0:

	20X1	20X0
Deferred tax asset		
Net operating loss	$	$
Other		
Valuation allowance		
Total		
Deferred tax liability		
Book-tax depreciation and amortization	$	$
Other		
Total		
Net deferred tax asset	$	$

The Company has accumulated state taxable loss carryforwards of approximately $[ ] at December 31, 20X1. These loss carryforwards expire beginning in 20X2.

	Effective tax rate reconciliation	
	$	%
Income taxes at statutory rate		
State and local income taxes, net of federal benefit		
Permanent differences		
Other		

A valuation allowance has been provided against the state net operating loss carryforward as it is currently uncertain as to when the losses will be utilized by the Company. Subsidiary A also has federal and state operating loss carryforwards of approximately $[ ]. These loss carryforwards will expire in 20X3.

Note 11 — Retirement Plans

Employee Benefit Plan

The Company sponsors a 401(k) plan (the plan) that covers substantially all nonunion employees of the Company. Required matching contributions to the plan totaled $[ ] and $[ ] for the years ended December 31, 20X1 and 20X0. In addition, the Company may elect to make a discretionary contribution to the plan. For the year ended December 31, 20X1 and 20X0, no discretionary contributions were made to the plan.

Union-Sponsored Pension Plans

The Company participates in various multiemployer defined benefit pension plans under the terms of collective bargaining agreements covering most of its union-represented employees. The risks of participation in these multiemployer plans are different than single-employer plans in the following aspects:

a. Assets contributed to the plan by a company may be used to provide benefits to participants of other companies,

b. If a participating company discontinues contributions to a plan, other participating employers may have to cover any unfunded liability that may exist, and

c. If the Company stops participating in some of its multiemployer pension plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Information with respect to the multiemployer plans providing pension benefits in which the Company participates is shown in the following table.

Name of Plan, Plan Number and Employer ID Number	*Certified Zone Status 20X1*	*Improvement or Rehabilitation Plan Pending/Implemented*	*Surcharge Paid*	*Expiration Date of Collective Bargaining Agreement*
Plan A, 111, 11-1111	Yellow	Yes	No	4/30/20X2
Plan B, 222, 22-2222	Green	No	No	7/31/20X3
Plan C, 333, 33-3333	Green	No	No	6/30/20X5
Plan D, 444, 44-4444	Green	No	No	12/31/20X2
Plan E, 555, 55-5555	Green	No	No	12/31/20X2

The zone status is based on information that the Company received from each of the plans. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded and plans in the green zone are at least 80% funded. The "Improvement or Rehabilitation Plan Pending/Implemented" column indicates plans for which a financial improvement or a rehabilitation plan is either pending or has been implemented.

Contributions made are as follows:

	20X1
Plan A	$
Plan B	
Plan C	
Plan D	
Plan E	
Other Plans	
	$

Note 12 — Commitments and Contingencies

The Company, as conditions for entering into certain construction contracts, purchased surety bonds. The bonds are guaranteed by contracts receivable of the Company. As of December 31, 20X1, the remaining exposure on these bonds is approximately $[ ].

The Company is contingently liable to a surety company under a general indemnity agreement. The Company agrees to indemnify the surety for any payments made on contracts of surety ship, guarantee, or indemnity. The Company believes that all contingent liabilities will be satisfied by their performance on the specific bonded contracts.

The Company is subject to various claims and legal proceeding covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material effect on the financial condition or results of operations of the Company.

Certain contracts are subject to government review of cost and overhead rates as defined in various federal cost regulations. Management of the Company believes that there are no adjustments that would materially impact the Company's financial position and results of operations as a result of a review of government contracts.

The Company has a purchase commitment with a vendor whereby the Company committed to purchase minimum amounts of office supplies used in its normal operations. Future annual minimum purchases remaining under the purchase commitment are $[ ] for the two-year period ending December 31, 20X3. During the year ended December 31, 20X1, total purchases under the purchase commitment were $[ ].

Note 13 — Related Parties

Revenues Earned From Affiliates

As of and during the years ended December 31, 20X1 and 20X0, the Company recognized the following amounts in the consolidated balance sheets and consolidated statement of operations from various affiliates, companies owned partially by the stockholders of the Company:

	20X1	20X0
Contracts receivable, including unconditional retainage of $[ ] and $[ ] at December 31, 20X1 and 20X0, respectively	$	$
Contract assets, including conditional retainage of $[ ] and $[ ] at December 31, 20X1 and 20X0, respectively		
Contract liabilities, including conditional retainage of $[ ] and $[ ] at December 31, 20X1 and 20X0, respectively		
Contract revenues		

Subcontracting Expense

As of and during the years ended December 31, 20X1 and 20X2, the Company incurred recognized the following amounts in the consolidated balance sheets and consolidated statement of operations in connection with subcontracted work to a related company owned partially by certain stockholders of the Company.

	20X1	20X0
Accounts payable and accrued expenses, including $[ ] and $[ ] of subcontractor retainage payable at December 31, 20X1 and 20X0, respectively	$	$
Cost of contract revenues		

Note 14 — Variable Interest Entity

Subsidiary B is a related party installation company that has common controlling ownership with the Company. The Company uses the services of Subsidiary B for installation of water and wastewater equipment. The Company has determined that Subsidiary B is a VIE due to lack of sufficient at-risk equity. The Company has also determined that it is the primary beneficiary of Subsidiary B because it has the power to direct the activities of Subsidiary B that most significantly impact Subsidiary B's economic performance, including establishing installation rates, and daily management decisions for operations and the awarding of subcontracts and determination of subcontract terms for work performed by Subsidiary B for Subsidiary A in addition to structuring certain arrangements with customers of Subsidiary A for certain work to be structured as separate contracts directly between the customer and Subsidiary B. For the year ending December 31, 20X1, the Company had non-cancellable service subcontracts with Subsidiary B of $[ ]. Additionally, the Company is exposed to the obligation to absorb losses of Subsidiary B and the right to receive benefits of Subsidiary B that could potentially be significant to Subsidiary B through the subcontracts executed by the Company with Subsidiary B and implicitly due to the common controlling ownership. Subcontracts with Subsidiary B that do not provide positive cash flow or sufficient profitability may expose Subsidiary A to a loss. The operations of Subsidiary B are financed by stockholder contributions of equity. Additionally, Subsidiary A has provided necessary financial support to Subsidiary B for operations when needed. During the years ended December 31, 20X1 and 20X0 there was no financial support provided to Subsidiary B that was not previously contractually required.

As management of the Company has determined the Company to be the primary beneficiary of this VIE, Subsidiary B's assets, liabilities and results of operations and cash flows are included in the Company's consolidated financial statements after elimination of intercompany accounts and transactions. The interests of the noncontrolling equity owners of Subsidiary B is reflected in "Noncontrolling interest in subsidiary" and "Net loss attributable to noncontrolling interest in subsidiary" in the accompanying consolidated balance sheet and consolidated statement of income, respectively. The condensed summary of the carrying amount and classification of Subsidiary B's financial information included in the Company's consolidated balance sheet as of December 31, 20X1 and 20X0 is as follows:

	20X1	20X0
Condensed Balance Sheet	$	$
Current assets		
Noncurrent assets		
Total assets	$	$
Current liabilities	$	$
Noncurrent liabilities		
Total liabilities	$	$
Condensed Results of Operations		

Revenues	$	$
Cost of revenues		
Net Income	$	$

The assets of Subsidiary B can only be used to settle the liabilities of Subsidiary B. Subsidiary B's creditors, other than its bonding company, do not have recourse to the general credit of the Company and certain assets, such as contract assets, can only be used to satisfy the obligations of Subsidiary B.

Note 15 — Backlog

The following schedule shows a reconciliation of backlog representing the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress at December 31, 20X1, and from contractual agreements in effect at December 31, 20X1, on which work has not yet begun.

Contract revenues on uncompleted contracts at December 31, 20X0	$
Contract adjustments	
Contract revenues for new contracts, 20X1	
Contract revenues recognized, 20X1	$
Backlog at December 31, 20X1	$

In addition, between January 1, 20X2, and June 19, 20X2, the Company entered into additional construction contracts with revenues of $[ ] (unaudited).

Comments should be received by July 12, 2021, and sent by electronic mail to Kim Kushmerick at kim.kushmerick@aicpa-cima.com, or you can send them by mail to attention: Kim Kushmerick, 1345 Avenue of the Americas, New York, N.Y., 10105.