

CONTRACTOR

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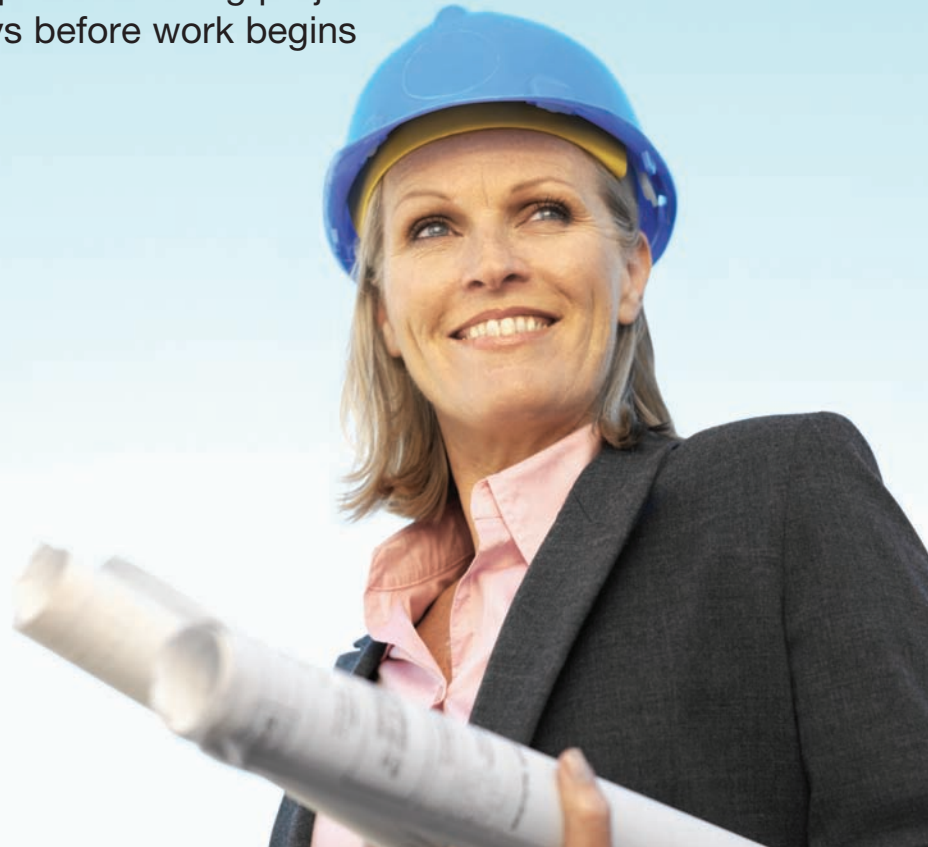
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Mind your metrics
Key financial measures can keep you in the game

Plus!
Construction Success Story
Contractor considers supplementary certification

Better start, better finish

5 steps for avoiding project delays before work begins



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Better start, better finish

5 steps for avoiding project delays before work begins

These days, most contractors can't afford to absorb the additional expenses that result from project delays. Job slowdowns affect not only your finances, but also your construction business's reputation.

Project delays occur for a number of reasons, and can range from small misunderstandings to huge conflicts that may put the financial success of a project on the line. While it may seem that some delays are out of your hands, you can take steps to ensure that all parties have their "heads up" before the first shovel goes down. The following five steps will help you get to the finish line quicker by getting off to a better start.

1. Check the owner's financing

When projects halt because of lack of funding, contractors have little control over the situation. To avoid these circumstances, request certain documents from owners in the beginning, including lender documents and contracts related to right to payment and proof of financing.

Be on the lookout for signs that an owner may be in financial danger. Telltale signs may include owner absences at lender meetings, lender visits to the project site and hesitance in providing access to loan documents.

Unclear points in a contract, such as who's responsible for procuring certain building materials, can add fuel to the fire during a project dispute.

In a worst-case, nonpayment scenario, you can file a lien to collect money owed, but avoiding the situation altogether usually has a more favorable outcome. Even if you eventually get the money via a lien, you'll still incur the legal costs (not to mention time and hassle) of filing and pursuing it.

2. Concentrate on the contract

Agreeing on plans and specifications is only the beginning. A solid plan is nothing without an equally solid contract. Along with creating a contract that all parties can agree on, clarity and specificity are important. Unclear points in a contract, such as who's responsible for procuring certain building materials, can add fuel to the fire during a project dispute.



Particularly important parts of a contract are the notice of claim, request for time extension, submittal review and similar stipulations. All parties should be aware of their responsibilities and obligations. It's a good idea to create a checklist that tells all parties which contract provisions require action from each of them.

You can reduce your risk further by taking control of the contract process (with your attorney's assistance) rather than relying on boilerplate contracts. Also try to negotiate and execute the contract well before the job starts.

3. Agree on a plan of action

The next step toward completing a smooth, efficient project is to get all involved parties on the same page. This means collaborating on a plan of action — agreeing on a schedule that anticipates events that are out of your control (such as weather and shipping problems), developing meticulous plans, and reviewing the building design to identify obvious inconsistencies or problems.

Cooperation is critical: The better you're able to work with the owner, developer, architects and subcontractors to anticipate potential glitches in your plans, the less likely it is that major problems will arise.

4. Find common ground on communication

Creating standardized information management systems and processes, preferably through the use of paperless technology infrastructure (see "Going paperless" at right), can do wonders when it comes to avoiding project delays.

Thousands of documents are transferred between parties during a given project — and each party may manage documentation and communication differently. As a result, errors, miscommunications and logjams are bound to occur.

To facilitate a clear and consistent exchange of data, and to dodge a number of common problems, consider implementing a single, comprehensive and integrated platform that manages all day-to-day project management functions and to which all participants have access.

Going paperless: Key questions to ask vendors

Many contractors are switching from paper to Web-based software to better collaborate with all involved in day-to-day project management functions. But with dozens of providers offering project management solutions, choosing isn't always easy. When evaluating vendors, ask yourself the following questions:

- What are the problems I hope to solve with a project management solution (in order of priority)?
- What are the crucial functions I need in a project management software program?
- Will the project management software be compatible with our current systems?
- Is the vendor a good fit for the size and technological savvy of my construction company?

5. Choose suppliers wisely

Frustrating delays caused by supplier inefficiencies and mistakes can sometimes be avoided. Be sure you choose suppliers you trust and that have a proven record of high in-stock availability and excellent customer service.

If you know in advance that you'll have to order items from a far-flung supplier, or one that you're unfamiliar with, account for potential stocking and shipping delays by incorporating possible delays into your schedule. Moreover, ask the supplier for references from anyone who can give a better idea of the supplier's timeliness.

Problems are inevitable

Even if you follow the previously mentioned steps to a "T," you'll likely face some minor scope changes and hang-ups once the project is underway. But whether that problem stays a molehill or becomes a mountain may depend on your project preparedness. And if it's a change you can charge for, you'll be all the more glad you did your homework beforehand. ■

Have you heard about the extended NOL carryback period?

This tax season, some construction companies may find welcome relief from an uncertain economy and challenging marketplace because of the recently extended net operating loss (NOL) carryback period. This provision is part of the Worker, Homeownership and Business Assistance Act of 2009, a bill passed last November that aims to create jobs and offer respite to struggling businesses and the unemployed.

Extension background

For many contractors, this tax law change is a long time coming. As the housing bubble grew during the early 2000s, construction companies cashed in, paying substantially higher taxes as a result. When the bubble burst, however, many of the same businesses that had been experiencing unprecedented growth found themselves in dire straits.

Eligible small businesses may apply the five-year carryback to both the 2008 and 2009 tax years.

The National Association of Home Builders (NAHB) has since been lobbying to help homebuilders recoup some of their losses through favorable tax legislation. The NOL extension will save 30,000 jobs at homebuilding businesses nationwide, according to NAHB CEO Jerry Howard.

Technical details

The newly renewed NOL rules allow most businesses to carry back their NOLs for up to five years, instead of the previously sanctioned two.



Companies must make carryback elections by the deadline for filing a return (including extensions) for their last taxable year beginning in 2009, and may claim operating losses that occurred in tax years ending after Dec. 31, 2007, and beginning before Jan. 1, 2010. For the fifth year, carrybacks are limited to 50% of that year's taxable income.

Eligible small businesses (those with gross receipts not exceeding \$15 million) may apply the five-year carryback to both the 2008 and 2009 tax years. Those that don't qualify as a small business must choose between either 2008 or 2009 — they can't claim both. Some companies, namely large financial institutions that received bailouts from the Troubled Asset

Relief Program (TARP), aren't eligible for the carryback extension at all.

Before the NOL extension, losses claimed for alternative minimum tax (AMT) purposes were limited to 90% of the AMT NOL. Now taxpayers are allowed to carry back 100% of their AMT NOL as well. This can result in additional savings for construction companies that typically end up paying some AMT tax.

A valuable opportunity

If your construction business suffered an NOL during the 2009 tax year, the time is now to put it to use in better managing your tax liability. You'll need to look at, among other things, your 2008 and 2009 revenues, NOLs and the taxes you've paid over the last five years. Talk to your CPA about whether you qualify and what your next move should be. ■

Mind your metrics

Key financial measures can keep you in the game

The rough economy and its slow recovery have been frustrating for many contractors. But it's also been a reminder that the construction business, like many professional sports, is a game of adjustments.

As your local market picks up or slows down, you need to know exactly where you stand financially to reasonably decide whether to move boldly forward or pull conservatively back. And when it comes to determining your financial standing, the more accurate and precise you are, the better. That's where certain key financial measures come into play.

Getting a good return

Your construction business is very much an investment, so it's important to keep tabs on how (or whether) that investment is paying off. To do so, you can calculate your return on assets (ROA), which indicates how profitable your company is relative to its total assets. To calculate ROA, divide net income before taxes by average total assets. The higher the ROA, the better, because it shows that your assets are being used effectively to generate profits.

For instance, a commercial roofing contractor earns a net income of \$800,000 and total assets of \$3.5 million, for an ROA of 23%. A competing



company earns the same net income but has total assets of \$5 million for an ROA of 16%. Thus, the first company is better at converting assets into profit.

Another “return” amount to look into is return on equity (ROE). ROE tells you how efficiently your construction company is managing its assets and generating a return to your shareholders. The calculation: Divide net income by shareholders’ equity.

Generally, the higher your working capital turnover, the better, because it means your business is generating more sales compared with the money it uses to fund those sales.

For example, say you’re a general contractor with \$600,000 in net income and shareholders’ equity of \$5 million. Your ROE would be 12%, a pretty low result. For this or any other metric, you need to work with your CPA to get a sense of how your company compares with similar construction businesses.

Looking at assets, capital

We mentioned assets in the ROA calculation above, but it’s important to look deeper at your asset utilization as well as your working capital.

One way to look at asset utilization is to determine your fixed assets to total assets ratio. To calculate this you should divide total fixed assets — construction equipment and company computers, for example — by total assets. (Appraising your assets is a subject for another article. Check with your CPA on the best way to do so.) A high result could indicate a disproportionate amount of your company’s funds are tied up in fixed assets, which means your business may lack the liquidity needed to fund current operations.

For your construction company’s working capital, calculate current assets less current liabilities. Your working capital

turnover ratio measures how much revenue is being generated from each dollar of working capital available — to calculate this ratio, divide sales by your working capital.

Generally, the higher your working capital turnover, the better, because it means your construction business is generating more sales compared with the money it uses to fund those sales. Too high a ratio, however, may indicate that you’re overextended and may have difficulty paying bills from time to time.

Confronting your debt

In a difficult economy, your debt can have a major impact on your ability to effectively do business. So another key metric to consider is debt-to-equity ratio, which measures your company’s ability to borrow and repay money by dividing total liabilities by shareholders’ equity.

Lenders look closely at this number because a high ratio may jeopardize your potential to repay loan payments. Sureties will also look at debt to equity when making bonding decisions.

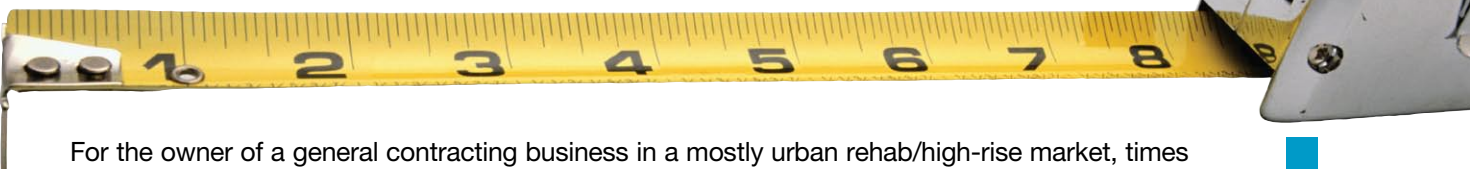
Getting a clear picture

When times are tough, it’s easy to put your head down, work as hard as you can and hope things turn out right. But, financially speaking, you’re better off getting a clear picture of how your construction company is performing to better ensure that any forthcoming surprises are pleasant ones. ■



Construction Success Story

Contractor considers supplementary certification



For the owner of a general contracting business in a mostly urban rehab/high-rise market, times were tough. With the economy in gradual recovery mode, work was slowing down and competition was stiff. So, during a visit to his financial advisor, the owner asked for ideas on gaining an edge. She had one that he found quite surprising: supplementary certification.

Investing in your future

Continuing education, his advisor explained, can benefit construction companies in a variety of ways. Contractors who seek certification beyond what's required for licensure are in a better position to compete for business. This is particularly important in a time when standing out from the pack is difficult — as owners and developers have their pick of dozens, sometimes hundreds, of construction companies offering attractive bids.

Contractors also are investing in continuing education to broaden their horizons in areas they wouldn't normally explore. Companies like his, which have previously focused on only residential markets, are getting licensed and certified in commercial construction. Those who have yet to delve into green building are seeking training that will allow them to go after sustainable construction projects.

Besides providing the versatility needed for increased income, the advisor went on, the knowledge gained from project management, executive management and risk management courses can help him keep projects on track and on budget — a must when finances may already be tight. Training would also allow him and his employees to better meet and exceed client expectations, which could help increase retention and referral rates.

Regarding staffing, the advisor reminded him that the industry will likely face familiar labor-shortage issues when the tide turns. So investing in employees' career development *now* could improve morale and retention, and make hiring easier later if continuing education is offered as part of a hiring package.

Targeting the resources

The contractor was intrigued and asked where he might go for continuing education and certification courses. His advisor mentioned several well-known organizations, including the Associated General Contractors of America, the Construction Specifications Institute and the American Institute of Constructors.

She also said that in-house training, facilitated by certified instructors, is an option. In some cases, employers can obtain government financial aid or reimbursements. States determine eligibility, yearly limits and other variables. For more information, she suggested he visit the Department of Labor's Employment and Training Administration site at doleta.gov/business/TrainingEducation.cfm.

Thinking about it

The contractor in this case needed some time to mull over the idea of investing any dollars from his already-tight budget in continuing education. But he had heard of some job prospects in areas his company typically didn't serve. So he's glad his advisor gave him something to think about. ■

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