

ON-SITE

Winning the numbers game
4 smart accounting practices for contractors

When "growth" is a bad thing
Mold liability and what to do about it

New world builder
Safety-enhanced construction
materials and techniques

Minimize payroll taxes with an FSA

PLUS!
Futurescope:
Construction business trends

WINTER 2004

JGTRRA and your business...Construction industry leaders honored...Meet Rick Davis...details inside



Elliott Davis^{LLC}

Construction Services Group

www.elliottdavis.com

Winning the numbers game

4 smart accounting practices for contractors

If you're like most contractors, accounting isn't one of your favorite pastimes. But an accurate set of books, coupled with smart money-management practices, can help you better handle cash flow, run projects more profitably, and more easily qualify for bonding and loans. Here are four ways to win the numbers game.

1. Automate your accounting

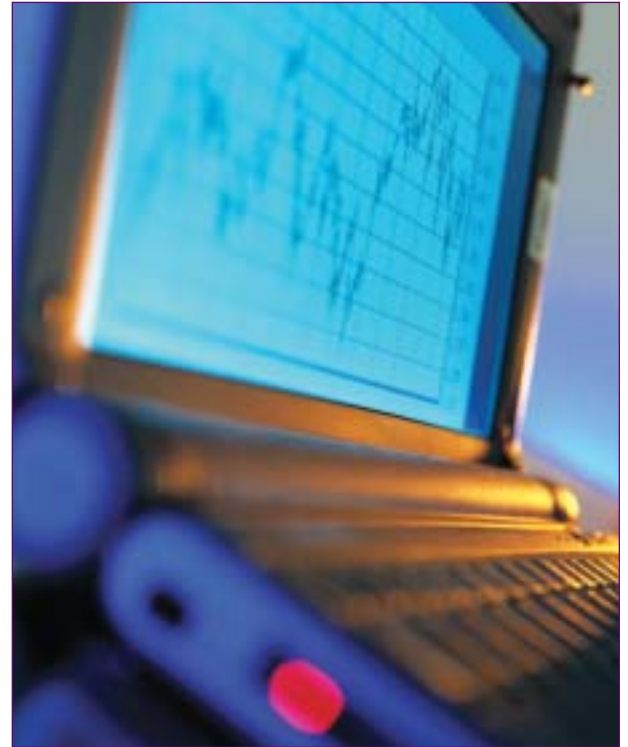
If you haven't done so already, invest in today's sophisticated, versatile accounting software to track your business income and expenses. (Or consider upgrading your current system if it's more than a year or two old.)

Smaller general contractors or subcontractors may get by comfortably with an off-the-shelf program, such as Quickbooks, Simply Accounting, MYOB or Master Builder. Larger or more specialized construction businesses, however, may need niche-specific or even customized applications.

Use the software to monitor your income and expenses monthly, rather than showing them to your CPA during one of your regular visits and hoping for the best. To accomplish this goal, you need to learn the ins and outs of your accounting system — including how to input transactions, balance cash accounts, and create balance sheets and profit and loss statements.

Teach yourself and your managers to generate and acquire accounting reports, thoroughly understand them and keep a watchful eye on the numbers.

You don't have to become an accountant or a computer expert to get the information you need. You simply must teach yourself and your managers to generate and acquire accounting reports, thoroughly understand them and keep a watchful eye on the numbers from month to month.



2. Control your checkbook

No, you don't need to literally keep your checkbook in your pocket at all times. But you should always be involved, at least at some level, in your construction company's check-writing process. For example, you may approve bills before payment, sign the checks or review your checking account statement at month end.

If you're not the sole signer of your company's checks, limit what one person can do. For instance, you may not need to sign off on every \$25 your business spends. But you could set a policy whereby you review and sign checks exceeding \$100, \$500 or \$1,000. Carefully monitoring your cash outflow in this manner will help you control expenses and lower the risk of employee mismanagement — or even fraud. (See "Good accounting can prevent fraud, too" on page 3.)

3. Read your bank statements

Among the best ways to keep track of your money is to take the time to read your monthly bank statements, carefully reviewing deposits, canceled checks and balances. Doing so will familiarize you with the financial goings-on at your company and alert you to problems, mistakes or misconduct.

For example, you probably know who your vendors are and generally when they should receive payments and in what amounts. So why are you suddenly paying a large bill to Vendor X, whom you've never dealt with in the past? Or why did you pay that lumber invoice twice in one week? By reviewing your bank statement monthly, you'll catch mistakes like these and be able to quickly address them.

4. Track tax-deductible expenses

Many contractors who forget to follow good accounting practices not only inadvertently hinder their cash flows, but also miss out on tax deductions. Sadly, they often have little trouble remembering their tax bills, which cut deep swaths into their bottom lines.



GOOD ACCOUNTING CAN PREVENT FRAUD, TOO

Sure, good accounting can cure sluggish cash flows, error-ridden accounts receivable and accounts payable, and top-heavy tax liability. But it can also treat a much more malicious malady — fraud. Here are a few common-sense precautions to take:

Segregate job duties. Dividing accounting responsibilities among several employees is a tried-and-true antifraud strategy. If you can't do so because your company has only one bookkeeper, you'll need to assume this responsibility yourself by personally double-checking invoices, payments and bank statements.

Hire and manage wisely. Today more than ever, it's a good idea to conduct thorough background checks on prospective hires, as well as verify their references and even run credit reports. Once hired, bond your employees so insurance will cover your losses should a fraudster strike.

Establish secure deposit procedures. Make deposits daily — cash that sits around has more chances to “walk away.” Also, prevent double payments by marking invoices “Paid” when you're signing the checks.

Although even the most solid accounting practices can't totally protect you from fraud, they can certainly make wrongdoings harder to carry out and less inviting for any would-be perpetrators in your midst.

Tracking tax-deductible expenses is relatively easy. One way to simplify your record keeping: Open a business-only credit card. It will provide you with an automatic record of payments that you can bring to and discuss with your CPA. You may also wish to maintain a petty cash fund for small purchases.

In addition, make sure you maintain records of company expenses such as business meals and entertainment, vehicle mileage, and other items. Doing so can help you obtain significant savings come tax time.

Follow the path to profitability

Remember, the path to profitability is paved with vigilance. And no one knows your construction business better than you, which is why you'll always be the best person to ultimately oversee its accounting practices. But you needn't undertake this responsibility alone — visit your CPA or financial advisor periodically (at least quarterly) to review your operations and ensure all's well. ↑

When “growth” is a bad thing

Mold liability and what to do about it

Associating the word “growth” with your construction company is usually a good thing. But one instance in which it’s decidedly a bad thing is when it refers to mold.

Having a “fungus among us” has become more than just a silly joke — it’s led to a relatively sudden proliferation of litigation against contractors. And coming out on the losing end of such lawsuits could leave you liable for remedying the problem and even compensating owners or residents for medical costs.

Learn the causes

So what causes mold? Most experts agree that moisture typically allows mold to find a footing. But how this moisture develops is less certain. Some observers believe that improper “drying in” during construction may encourage the problem. Other contributors may include:

- Inadequate waterproofing or improper installation of vapor barriers,
- Leaky roofs or faulty plumbing,
- Decks or patios that haven’t been properly sloped to drain, and
- Airtight building design, which improves energy efficiency but provides a more conducive mold-growth environment.

Serious health problems — including allergies, respiratory problems, headaches and fatigue — reportedly stem from mold. And because these organisms eat away at the materials on which they grow, they can also cause buildings to decay.

Work with owners

Logically enough, the most effective way to control mold growth is to control moisture, according to the Environmental Protection Agency. And no one is in a better position to regulate moisture than a

diligent building owner. Thus, as a critical first step toward minimizing your liability, you need to educate your customers.

To do so, develop consumer awareness or mold information statements to share with owners before beginning work or at completion. Explain the causes and consequences of the problem, as well as provide some handy preventive tips.

Also make clear that, because even a well-designed and constructed building can, under the right circumstances, become conducive to mold, building owners are ultimately responsible for combating this danger.

Take multiple measures

Of course, communicating with owners alone won’t guarantee your safety from mold liability. Here are a few other measures to combat this threat:

Check your documents. Be careful of your construction contracts — a well-worded agreement can help you avoid liability. Insert language that releases you from any mold-related damage that occurs after completion. Also check into mold-liability coverage in your insurance policies. If you don’t have any, buy some as soon as possible.

Educate your personnel. Teach employees what to do if they discover mold. For instance, workers may need to temporarily evacuate the building and, when they return, use respirators, goggles and gloves until they eliminate the problem.



To that end, you may have to learn and implement various methods for disinfecting buildings — such as sealing, removing or replacing contaminated materials. If necessary, attend a mold-related seminar (or ask some key employees to do so) and pass along what you learn to your employees.

Arrange for inspections. As you complete each job, consider investing in a mold inspection. Passing these tests indicates that the structure is mold-free at the inspection date. You may even ask owners to sign a written release as of that date to

document that they knew no mold existed in the building when you finished working on it. Doing so may safeguard you against potential lawsuits.

Fight the outbreak

Fighting the outbreak of mold-related lawsuits is a war with many fronts. You need to educate your customers, managers, employees and maybe even yourself. Your insurance and other risk management tools must be top-notch, too. The effort, however, is well worth it. **T**

New world builder

Safety-enhanced construction materials and techniques

The events of Sept. 11, 2001. The Oklahoma City attack in 1995. The World Trade Center bombing of 1993. These tragedies have served as wake-up calls not only to those who defend our country, but also to the construction industry. It has found itself facing a drastically increased need for structures that prevent or minimize loss of life in the event of a terrorist attack or other disaster. Let's look at some of the latest safety-enhanced materials and techniques you can offer your customers.

Windows and glass

Experts estimated that as many as 80% of those who died in the Oklahoma City bombing did so because of shards of glass or falling debris. To reduce these fatalities, glass-industry leaders have developed some much-improved products. For example, SentryGlas® Secure™, developed by DuPont, inserts a special polymer between two window panes that holds the glass together. Consequently, it's less easily fractured.

Another emerging technology is “window catchers.” These devices, which look like conventional shades, include a special reactive system that automatically closes them if a bomb goes off.

As a result, the catchers stop windows from imploding into a room and turning themselves into giant flying projectiles (or projectile bursts). Because window catchers are made out of a substance 15 times stronger than steel, they are incredibly strong.

Besides using better materials, some contractors are suggesting safer building designs. For instance, owners may replace larger storefront windows with smaller, more highly reinforced glass panels. Consider proposing such ideas when meeting with the owner (or architect) on your next project — especially if it's a commercial or office space.

Walls and other structural elements

Of course, windows aren't the only structural element contractors and others in the industry are scrutinizing. The very walls around you may be a threat if they won't adequately contain a bomb blast, fire or other catastrophic event.

Some U.S. embassies have already responded to this risk, strengthening their walls, columns and pillars against flying bullets or debris with materials used for bulletproof vests. (KEVLAR® by DuPont is one example.) Other government

buildings are installing stalwart landscaping walls and reinforced benches to stop vehicles.

Fire-fighting technologies also continue to develop. In commercial buildings, many contractors have been installing more powerful sprinklers and those capable of early suppression fast response (ESFR). Fire-retardant paints and coatings keep evolving as well.

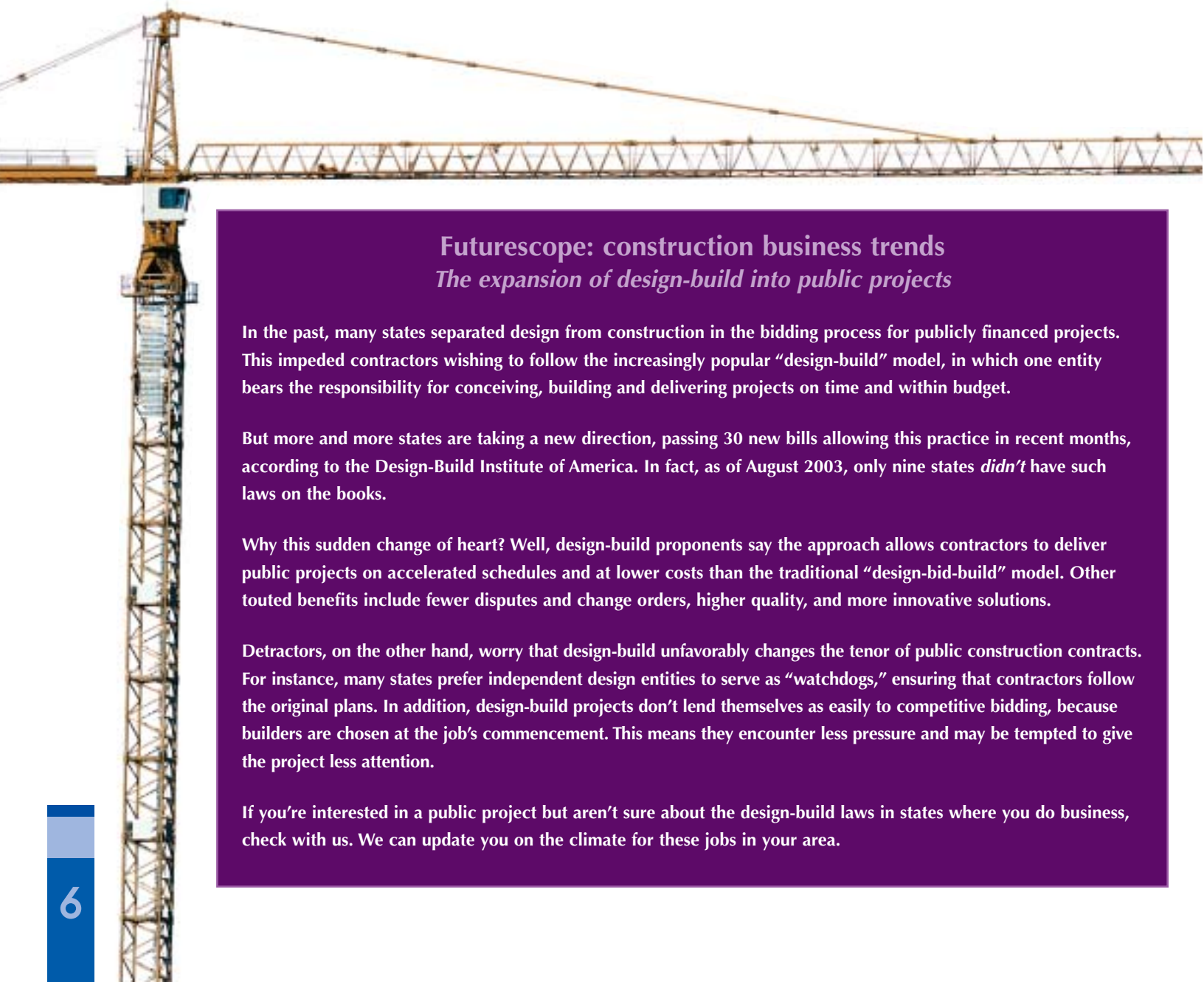
Again, bear these developments in mind as you identify, bid on and perform your jobs. If you notice an owner skimping on materials or measures that could increase building safety and security, politely broach the subject and offer some alternatives. This is a value-added

service you can offer customers, which they'll ultimately appreciate.

Inevitable questions

As you discuss safety-enhanced materials and techniques with owners, cost vs. benefit questions will inevitably arise. So learn as much as possible about the monetary and technical aspects of the various options.

If you're not sure where to begin, please contact us. We can help you evaluate the pros and cons of a wide variety of safety-related items and procedures, including those that relate to any niches in which you specialize. *T*



Futurescope: construction business trends *The expansion of design-build into public projects*

In the past, many states separated design from construction in the bidding process for publicly financed projects. This impeded contractors wishing to follow the increasingly popular “design-build” model, in which one entity bears the responsibility for conceiving, building and delivering projects on time and within budget.

But more and more states are taking a new direction, passing 30 new bills allowing this practice in recent months, according to the Design-Build Institute of America. In fact, as of August 2003, only nine states *didn't* have such laws on the books.

Why this sudden change of heart? Well, design-build proponents say the approach allows contractors to deliver public projects on accelerated schedules and at lower costs than the traditional “design-bid-build” model. Other touted benefits include fewer disputes and change orders, higher quality, and more innovative solutions.

Detractors, on the other hand, worry that design-build unfavorably changes the tenor of public construction contracts. For instance, many states prefer independent design entities to serve as “watchdogs,” ensuring that contractors follow the original plans. In addition, design-build projects don't lend themselves as easily to competitive bidding, because builders are chosen at the job's commencement. This means they encounter less pressure and may be tempted to give the project less attention.

If you're interested in a public project but aren't sure about the design-build laws in states where you do business, check with us. We can update you on the climate for these jobs in your area.

The contractor's corner

Minimize payroll taxes with an FSA

During all the hubbub over last year's tax law, I read something about how payroll taxes are often just as much or more costly to businesses than income taxes. Looking back, I've paid out substantial sums for my construction company's payroll tax liability for years now. Is there anything I can do to lessen this expense?

You're right — payroll taxes make up a significant portion of any contractor's compensation costs. And you owe it to your company's profitability to minimize this expense as much as possible. Among the best strategies for doing so is to offer fringe benefits instead of higher salaries to reduce your gross taxable payroll.

Considering one hot option

So what kind of fringe benefit should you consider? In existence for years, but continuing to grow in popularity, are flexible spending accounts (FSAs). Under these arrangements, participants request you reduce their gross pay by specified amounts. That money goes into an FSA that they can use during the coming year for medical and dependent care expenses not covered by your health, dental or other benefit plans.

Covered medical expenses may include prescription co-pays, orthodontic work, hearing aids, chiropractor bills, prescription sunglasses and contact lens solution, and even crutches. Participants may also use FSA funds for *dependent care* needs such as preschool tuition, child care costs, private baby sitters and elder care.

For you, FSAs may augment recruitment efforts and improve employee morale. They can increase retention, too, as employees who receive job offers in the middle of the year may factor unused FSA funds into their decisions.

Abiding by the rules

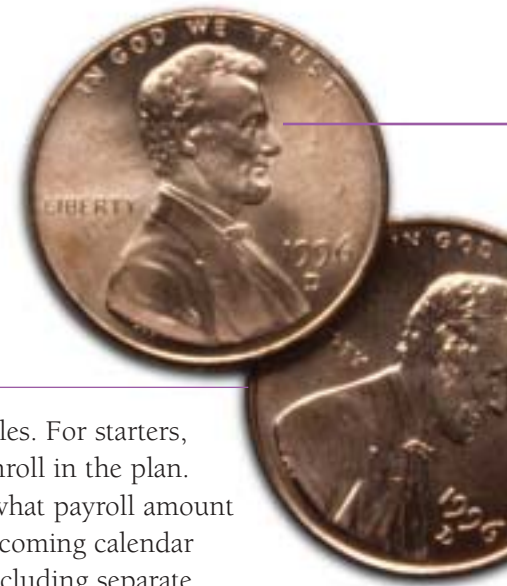
Of course, FSAs come with rules. For starters, employees must voluntarily enroll in the plan. They also need to determine what payroll amount they want withheld for the upcoming calendar year *before* that year begins, including separate amounts for each category (such as dependent care or medical expenses). Figuring the ideal number involves considering federal income, payroll, Social Security and Medicare taxes, as well as state income taxes if applicable.

Additionally, IRS regulations require participants to forfeit FSA funds they haven't spent by year end. And they can neither roll over the money from year to year nor transfer funds from one FSA to another. Plus, employees may not change the amount committed to the FSA after the open enrollment period, except for family-status changes such as a birth, marriage, divorce or death.

The rules do, however, allow FSAs to include health insurance premiums employees have already paid. In fact, premiums are easiest to put in FSAs because their amounts are fixed and generally deducted from payroll anyway. So even if you don't have an FSA to cover other items, at least consider a "premium only" plan for health insurance costs.

Seeing all the possibilities

When contemplating an FSA, remember that you'll have to educate your employees about its rules, benefits and dangers. So this strategy isn't something to undertake lightly. Look into all the possibilities — good and bad — this plan could bring about for your business and its employees. **T**



Davis Offers Unique Solution to Complex Challenges

Shareholder **Rick Davis** has been with Elliott Davis almost 20 years and in that time he has developed a client base inclusive of contractors, engineers, developers, architects, and construction companies, among others, each complete with a different set of demands. "Understanding our clients' needs is essential to providing the best possible services," says Davis. "For each complex client challenge, there is a unique solution, and we do our best to provide that solution whenever possible."



As managing shareholder of the firm's Greenville -Spartanburg - Anderson offices, unique situations are nothing new to Rick, who also serves as an integral part of Elliott Davis' Construction Services Group, the firm's Executive Committee and Chairman of the Personnel Committee. Rick's professional experience includes communicating with management regarding areas of profitability improvement, coordinating audit and tax functions for clients, and providing business advisory services based on the needs of clients relative to their business cycles.

A Clemson graduate, Rick is a CPA in South Carolina and is a member of both the AICPA and SCACPA. A Little League coach in his spare time, Rick spends most of his weekends at baseball and basketball games with his sons, Ricky, 13, Scott, 11, and Matthew, 8. He also is quite an amateur gourmet in the kitchen and he and his wife of 18 years, Deborah, often entertain friends with delicious selections of gourmet delicacies. To reach Rick, email him at rdavis@elliottdavis.com.

JGTRRA and Your Business

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) contains significant tax breaks for businesses related to depreciation. The 50-percent bonus depreciation applies to new property placed in service on or after May 6, 2003 and before January 1, 2005. Property does not qualify for the 50-percent level of bonus depreciation if its acquisition was the subject of a binding written contract entered in to before May 6, 2003.

JGTRRA increases the amount of fixed assets businesses can expense in a particular year from \$25,000 to \$100,000 for tax years beginning on or after January 1, 2003. The deductible amount is phased-out beginning when acquisitions for the year exceed \$400,000. Taxable income limitations also apply.

Combining bonus depreciation with increased expensing can generate significant tax savings. Business owners will tend to achieve the maximum benefit by expensing purchases of used assets, while using bonus depreciation for purchases of new assets. In both cases, assets with longer depreciable lives should be selected first for expensing. Please contact us if you have further questions about how these new incentives can minimize your tax liability.

Get To Know Elliott Davis

Since 1925, Elliott Davis has helped businesses succeed and families prosper by offering a comprehensive array of tax, audit, accounting, consulting and wealth management services to clients across the Southeast. Our mission is simple ... help every client achieve the highest level of success possible. That philosophy has helped make us one of the largest CPA firms in the Southeast, and among the Top 40 in the nation. Can we help you?

Construction Industry Leaders Named to South Carolina's Fastest-Growing Companies

South Carolina's Fastest Growing Companies annual luncheon honoring the Top 25 fastest-growing companies in South Carolina recognized SYS Constructors of Greenville at number three and Pierce Homes, LLC, also in Greenville, at number six. Danny Schaaf, president of 16-year-old SYS Constructors, believes that living the company's mission of helping customers achieve their goals and objectives and guiding them through the construction process has made SYS Constructors the industry model that it is.

Other construction-related companies that participated in this year's program included Chancel Construction, Harper Corporation, McCrory Construction, Southern Homes of the Upstate, The Muhler Company and Trehel Corporation. *South Carolina's Fastest Growing Companies* is co-sponsored by Elliott Davis and the South Carolina Chamber of Commerce. Recognizing exceptional growth and performance is the basis of *South Carolina's Fastest Growing Companies 2003*, whose inaugural ranking was released in the fall of 2002. Profiles of the top companies can be found on the web at www.ElliottDavis.com/fgc.

Firm Services

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

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

Offices & Contacts

GREENVILLE	(864) 242-3370	Jeff Greenway or Rick Davis
AIKEN	(803) 649-1500	Bob Wade
ANDERSON	(864) 226-9514	Charlie Thornton
AUGUSTA	(706) 722-9090	Bill Woodward
COLUMBIA	(803) 256-0002	Jim Hazel or Todd Soderlund
GREENWOOD	(864) 229-4951	Mickey Young

Want To Go Electronic?

To receive your quarterly issue of Elliott Davis On-Site electronically (Adobe .pdf format), to update your mailing address, or to add/delete your name (or that of a colleague) from our mailing list, email your request to info@elliottdavis.com. We'll handle it promptly.