

ON-SITE

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SUMMER 2004



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Elliott Davis LLC

Construction Services Group

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Plant the seeds of future profitability with green building

The U.S. Environmental Protection Agency (EPA) estimates that more than 100 million buildings will exist in the United States by 2010, including more than 5 million commercial structures. Today, buildings use a third of the energy our country consumes annually as well as two-thirds of its electricity.

It's little wonder that nationwide interest has been growing in "green building" — that is, creating structures that conserve nonrenewable resources, limit harmful emissions, and improve health and morale for the people who spend time in them.

Savvy contractors, predicting that owners will be increasingly attracted to green building, are already positioning themselves at the forefront of this growing market.

What does this mean for contractors? At the very least, it means you should start learning about green building — particularly for commercial projects — because this movement shows no signs of abating.

Taking the LEED

Green building isn't a new phenomenon, but it is gaining momentum. The EPA launched its Energy Star program to encourage energy efficiency in 1992 and has since certified nearly 1,400 buildings. Public awareness of the program is so widespread that 56% of households are now familiar with it, according to a nationwide EPA survey released in March.

Four years ago, the U.S. Green Building Council, a national coalition of construction industry leaders committed to environmentally responsible building, announced its Leadership in Energy and Environmental Design (LEED) ratings system. It establishes standards to advance best practices



based on criteria such as mandatory construction elements and specific building methods. Four rating levels indicate the extent of compliance.

Energy Star and LEED have raised both awareness of — and interest in — green building. But this practice has its detractors as well, many of whom say it isn't worth the extra construction costs. Yet statistics are pouring in suggesting just the opposite.

Green buildings pay for themselves 10 times over, according to a 2003 study by the Capital E Group, Lawrence Berkeley National Laboratory and participating California state agencies. The same report revealed that the financial benefits of LEED-compliant structures are between \$50 and \$70 per square foot, while added costs are less than 10% of this range.

Adjusting your expectations

Joining the green-building movement will require you to adjust your expectations about project materials and installation methods. For instance, to limit reliance on artificial illumination, skylights may take maximum advantage of daylight. Or restrooms might feature motion sensors that activate lights only when someone enters.

In an extreme example, renovation of the Chicago Center for Green Technology involved using scraps from old wine corks, recycled tires and salvaged

pickle barrels. These materials won't likely gain widespread acceptance, but they and ones like them are becoming increasingly common.

Yet green building isn't just about specific materials and techniques. Broader concepts also play a role. These include storm water management (trapping rainwater in tanks for watering lawns, for instance) as well as construction and demolition waste management (favoring recycling over relying on landfills, for example).

Savvy contractors, predicting that owners will be increasingly attracted to green building, are already positioning themselves at the forefront of this growing market. They're partnering with landscape architects, designers and suppliers to offer earth-friendly expertise and services.

Some larger construction companies have even added dedicated green-building managers or on-site recycling and materials selection experts to their staffs. Others have representatives on local environmental task forces.

Rethinking the concept

Green building may still not be standard practice in America. But it's no longer an unfamiliar concept, and the driving forces behind it are every bit as dedicated and determined now as they were 10 years ago.

Construction industry analysts see no reason that green building will do anything but gain in popularity in coming years. If they're right, you have a good reason to rethink its place in your repertoire. And by starting this thought process now, you could put your company well in front of the competition when it counts. *T*

The forecast calls for cash

Brighten your financial outlook with the proper projections

Many construction businesses fail more for lack of cash than for lack of profit. This statement may initially seem illogical — profit translates to cash, doesn't it?

Not necessarily. Project payments are usually highly structured: You receive some amounts when you complete specified job phases. If nothing goes wrong, this works just fine. But project delays can turn into completion delays that lead to payment delays. And payroll and expenses continue unabated — whether income remains on schedule or not.

For this reason, accurately forecasting your cash flow can mean the difference between your construction company's continued success and its rapid decline.

Beyond dollars and cents

For contractors, cash flow means more than just money on hand or funds in short-term investments. It means spending power, and that can change with the economy, the banking climate and even supplier relationships.

Yet you're setting yourself up for frustration and failure if you attempt to pinpoint cash flow to the nearest dollar. You can't predict with absolute certainty which bids you'll win, which owners will pay promptly or which vendors will change payment terms to alleviate their own cash-flow problems.

But you can focus on your company's patterns in various areas to create cash-flow forecasts that are useful planning tools. To begin, consider trends in your:

- ☰ Current jobs,
- ☰ Anticipated billings,
- ☰ Accounts receivable,
- ☰ Payments due,
- ☰ Backlog sales, and
- ☰ Retainage.

For example, despite the uncertainties of the bidding process and the scarcity of repeat customers, you

may be able to predict backlog sales by calculating the percentage of your bids that lead to jobs. You probably don't secure new contracts evenly from month to month, but for long-term (12 months out) forecasting, you can add them to backlogs at an average monthly rate.

Your billing history

Your next step is to develop estimated billing schedules for future work. Again, a sampling of past projects will establish an average length and pattern of monthly billings that you can use in making projections.

While reviewing your history, identify collection patterns that give you an idea of how long it takes to receive payments after billing. Then turn this information into a collections model that shows what percentage of each month's billings you'll likely collect over several months.

You can easily forecast cash disbursements — including job cost payments, administrative expenses and debt service — because you've probably determined fixed costs (such as rent and salaries) in advance. You'll also be able to predict

variable contract expenses fairly accurately based on previous experience.

In any forecasting effort, it's important to tie together information in the right places. For instance, substantial up-front project expenses may mean your company incurs half its total costs early on — without receiving any corresponding cash. Thus, your forecasting process will reinforce the need to bill your customers as soon as you've met whatever criteria grant you the right to do so.

Measures to master

When you've completed your revenue projections, you can analyze them to determine what percentage of billings will likely cover expenses and when cash will ebb and flow (strong summers and weaker winters, for example). More important, you'll be able to begin actually *improving* your cash flow.

For example, perhaps you need to front-load your monthly billing schedule to cover the higher costs that usually accompany early project phases. In addition, you might accelerate cash collections through measures such as granting incentives for early payments and negotiating longer payment terms with vendors.

Another cash logjam can occur with retainage, when owners withhold up to 10% of payments until you complete the final punch list and pass all inspections. Although retainage is typically unavoidable, try to negotiate reasonable amounts up front.

A survival skill

Knowing how to generate reliable cash-flow projections is a vital survival skill in the construction industry. You may find them challenging to put together at first, but the time you put in will more than likely turn out to be well worth it. *T*

5 WAYS TO IMPROVE CASH FLOW

It's easy to focus only on past finances when you need to improve your construction company's cash flow. But current and forthcoming operations have just as much impact. Here are five ways to keep the dollars pouring in:

1. Check on new customers' reputations and ability to pay.
2. Assess general contractors' or subcontractors' experience and capacity to handle their job components.
3. Review and negotiate the timing and method of payments on new contracts, avoiding "paid when paid" and particularly "paid if paid" clauses.
4. Create consistent billing and costing procedures.
5. Keep work-in-progress overbilled, when possible, by ensuring that billings keep pace with progress and the schedule is front-loaded. Underbilling usually occurs because of cost overruns.

Summertime ... and the hiring's easy

3 steps to making sure you do it right

The summer hiring season is in full swing, and you may be facing a seemingly bottomless pool of applicants. That's good in some ways, but bad in others — you need to make sure you swim through those deep waters carefully to emerge with the best possible hires.



Good workers have more than just the right job skills. They also have the work ethic, integrity and personality to fit into your organization without disrupting it. Here are three steps to finding the right staff members.

1. Identify whom you're looking for

Finding good people starts with understanding the ins and outs of each job you need filled. Analyze every open position to identify which functions it requires and what traits are necessary to succeed in it. Then write concise yet thorough job descriptions based on your findings.

Another valuable task to undertake early in the hiring process is to develop a list of quick questions that eliminate obviously unqualified candidates before you bring them in for interviews. Pose these questions in a preliminary phone call that should take no more than 10 minutes.

For example, if the job requires unusual working hours, an appropriate question could be “Are you

available to work different shifts?” If the applicant says no, you don't need to interview that person face-to-face.

2. Ask the right questions

The formal interview is when you'll collect the most valuable information. If you ask the right questions, this brief period offers significant insights into each applicant's personality, job history, skills and attitude.

To that end, ask open-ended questions that force applicants to describe past behaviors and identify accomplishments. Doing so will indicate each person's ability to handle pressure, deal with conflict and speak confidently about their areas of expertise.

Summer applicants are more likely to be students, so ask questions such as “How have you handled a difficult situation with a teacher or classmate?” That will help you determine whether younger prospects are mature and disciplined enough to fit in on job sites.

Develop a list of quick questions that eliminate obviously unqualified candidates before you bring them in for interviews.

A word of caution: Before starting the interview process, research and review the questions you may *not* ask. These include inquiries about age, ethnicity, religious affiliations and arrests. You can, however, ask about convictions if you also state that a conviction will not necessarily disqualify the applicant.

When possible, have an employee or two sit in on interviews. They're the ones who'll be working with the new hires, and team chemistry is important. In

addition, employees can offer insights that allow you to make better hiring decisions.


3. Don't skimp on training

Because summer employees are often temporary, you may be tempted to train them minimally to get them on the job as soon as possible. Don't do it — this approach supports the perception that summer workers are second-class citizens and does little to foster teamwork on the job site. What's worse, undertrained employees are more likely to jeopardize safety and quality.

Give summer hires all the training they need. Doing so will not only improve their performances during their temporary employment, but also act as a better long-term investment should they return for future work or stay with you permanently.

Build a stronger work force

Summer hiring can seem like a free fall into a whirlpool of employment complexities. But, conducted properly, it can help you net a strong, cohesive work force that makes the busy season easier. It may even lead to employees who turn out to be strong swimmers for years to come. †



Futurescope: Construction Business Trends

The advent of forensic inspections

With liability coverage shrinking and construction litigation growing, builders must protect themselves against allegations of shoddy workmanship. For a growing number of contractors — particularly those in residential construction — forensic inspections represent a good way to stay in the comfort zone.

Forensic inspections are essentially peer reviews. Before a project begins, third-party inspectors (usually qualified architectural and engineering consultants from firms specializing in this service) scrutinize the construction plans, looking for potential compliance violations and design flaws.

During the job, the inspectors monitor your activities and provide progress reports containing photographs and written information. They also note deficiencies in a punch list for the project manager to address between inspections. Some inspection firms even offer training to keep your staff updated on problems that frequently lead to litigation.

After completion, the inspectors generate comprehensive final reports detailing the job and containing photographs as well as documents that you can use to defend yourself against a claim. These documents might include soil data summaries and manufacturer installation recommendations.

In response to forensic inspections, many contractors are becoming increasingly proactive about quality control. And their reasoning is sound: Better to meet with outside experts via a forensic inspection than to meet them in the courtroom while they're supporting an unhappy owner's lawsuit.

And while fear of litigation is an obvious reason to arrange for a forensic inspection, the quest for excellence is another — and perhaps greater — one. Documented quality work means fewer callbacks and long-range headaches, ultimately leading to a brighter bottom line.

The Contractor's Corner

Tablet computers offer rock-solid advantages

I've been hearing more and more lately about tablet computers and the value they can add to on-site communications. I thought laptops and personal digital assistants (PDAs) had us covered. What is a tablet computer? And why are they suddenly so popular with my fellow contractors?

You're right; tablet computers appear to be the next big thing — not only for contractors, but for businesspeople of all types. In fact, Bill Gates told a trade show in 2001 that tablets would be the most popular computers in America within five years. That prediction may have been a little optimistic, but they're definitely catching on.

Larger than PDAs but smaller than laptops, tablets feature the touch-sensitive screens of the former with the computing power of the latter. But what truly sets them apart from their technological counterparts is the ability to write on them with a pen-shaped utensil called a stylus.

So if you're walking around a job site and can't stop to key something into even the most portable of portable devices, you can still record that critical bit of information — or inspiration.

Versatile and portable

The versatility and portability of tablets may particularly appeal to contractors. You can write down change orders; take notes during inspections or meetings; sketch design alterations, site maps, organizational diagrams or other ideas; and pull up contracts and specifications to consult during



discussions. You're then able to store, file and share this data, often with wireless Internet connections. You can also bill more quickly and can more accurately and timely order materials.

Plus, tablets are more rugged than laptops, so they'll withstand significant wear and tear. Some manufacturers even sell protective jackets that guard against dirt, water and other harsh construction-site conditions.

Tablets enhance meetings, presentations and phone conversations, too. In small groups, they make perfect tabletop drawing boards for detailing ideas. (Think of drawing on a napkin in a restaurant.)

In larger settings, you can plug into a projector for any sort of multimedia presentation — and even draw on your slides to highlight or annotate key points. Tablets can be invaluable for retrieving supporting data and documentation as well.

These units have their drawbacks, of course. If your handwriting is less than perfect, you may find your notes inaccurately translated into text, though the software that performs this function is rapidly improving. Some programs even highlight questionable words for quick correction. Additionally, most tablets don't boast the staying power of their larger and smaller cousins — they typically run only four hours on batteries.

More than gadgetry

Two types of tablet computers are currently on the market: 1) "Slates," which have no keyboards — a possible disadvantage if you type faster than you write, and 2) "Convertibles," which compensate for this shortcoming by featuring keyboards similar to a laptop's but tend to cost a little more.

Whether the tablet becomes America's computing choice, as Gates predicted, remains to be seen. But there's little doubt that it's a valuable addition to construction sites — and one you shouldn't be too quick to dismiss as gadgetry. *T*

Bogan Meets Unique Client Challenges

As an Elliott Davis tax group manager, Travis specializes in tax planning and compliance for corporate entities, partnerships, individuals and trusts. As a long-standing member of the firm's Construction Services Group, he's a consultant, advisor, problem-solver and occasional cheerleader.



He consults with clients in a variety of areas, including projecting cash flow and income, advising on internal control procedures for accounting personnel and developing spreadsheets for client use. In addition, Travis performs reviews and compilations for commercial entities, and prepares financial statements and financial reports.

"In a rapidly changing environment like the construction industry, it's imperative that we advise clients on how changes impact their business so that they can react appropriately," Travis notes. "But it's just as important that we help them plan and prepare for the future — not just react to what's happening around them. We help clients find the most advantageous solutions to their unique challenges — coaching, counseling, and often encouraging them to even greater success."

With nine years of experience at Elliott Davis and another firm, Travis has worked with dozens of contractors and construction-related businesses since receiving his Master of Accountancy at Clemson University, and remains an instructor of accounting principles there to this day.

"It's a great way to stay in touch with the next generation of business leaders and professionals," he adds. "As a Gamecock undergraduate, it's also a wonderful excuse to wear garnet and black and still feel safe on the campus!"

An avid sports fan, Travis is a CPA in South Carolina and a member of AICPA, the Construction Financial Management Association and involved with the Carolinas Association of General Contractors. He can be reached by phone at (864) 242-3370, or via email at tbogan@elliottdavis.com.

Contractors Benefit From Cost Segregation Studies

If you have constructed, purchased, expanded, or remodeled real estate, a cost segregation study can help you to increase cash flow by accelerating depreciation deductions and deferring federal and state income taxes. The end result can save you thousands, even hundreds of thousands, of dollars.

The study lets you identify, segregate, and reclassify project-related costs that are classified as real property to shorter depreciable tax lives for federal and state income tax purposes. Recent IRS rulings allow you to change accounting methods to take advantage of previously understated depreciation expenses.

Usually on a job, a contractor combines different construction costs into single line item categories. For example, the electrical contract may combine light fixtures, panel boards, and conduit. Because the different components are not broken out separately, the entire project-related construction cost tends to be placed in a 39-year (non-residential real property) tax life. A cost segregation study can identify, segregate, and reclassify these components into a shorter depreciable tax life — saving you big money.

Increasing the owner's awareness of the benefits of cost segregation and offering to assist in the study may provide the contractor with a negotiating advantage. The best time to begin the process is during project planning prior to construction startup. At that stage, assets can be accurately evaluated for reclassification and enable the contractor to submit a more competitive bid. However, a cost segregation study may be performed on any property as far back as 1987, without amending tax returns.

| Project Type | Project Cost | Client Savings |
|-----------------------------------|----------------|----------------|
| Plastic Container Facility | \$ 3.5 million | \$ 400,000 |
| Office Building | \$ 11 million | \$ 600,000 |
| Automotive Component Manufacturer | \$ 4.7 million | \$ 270,000 |

Interested in learning more? Contact any Elliott Davis Construction Services Group member for further details.

Do You Fall In The Reactive Technology Trap?

Constantly reacting to, rather than planning for, today's technology advances can cost your company a lot — in time, energy and money. Elliott Davis Technology Solutions shareholder Charles Johnson offers this quick, self-administered quiz to determine if your company falls into the reactive technology trap. Answer No to more than 5 questions below, and chances are you do...

1. Do you have a written technology plan and annual budget? Yes No
2. Do you have a written business plan? Yes No
3. Do you have someone responsible for training in your organization? Yes No
4. Do you have consensus among owners/management group on the direction for your business? Yes No
5. Do you consider your staff and management to be well-trained? Yes No
6. Are your staff and management receptive to change? Yes No
7. Do you have a knowledgeable professional in charge of technology? Yes No
8. Do you have a professional IT department (or staff)? Yes No
9. Do you network with your peer group and competitors, and track changes in your industry to help your organization continuously improve? Yes No
10. Do you believe you get an adequate return on your technology investment? Yes No
11. Do you have integrated databases and up-to-date hardware systems? Yes No
12. Are you aware of, but have not implemented, hardware or software solutions that could make you more efficient or profitable? Yes No
13. Are you growing your business and retaining good clients and employees? Yes No
14. Is the profitability of your business increasing at the rate you want? Yes No

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
- Litigation Dispute Resolution
- Retirement Plan Administration
- Tax Planning & Preparation
- Wealth Management Services

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