

ON-SITE

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Elliott Davis

Accountants and Business Advisors

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CPM clears path to better time management ... and more

When time counts it's imperative that you have a schedule to help you manage that time wisely. It's a rare construction project that goes as scheduled from start to finish, but a carefully planned and regularly updated schedule can go a long way toward allowing you to manage your projects effectively and efficiently.

Many builders use the critical path method (CPM), a computerized scheduling tool, to help them identify critical activities associated with each project, determine how long each activity will take and decide the order in which to do them. CPM also helps them visualize how each task relates to the other tasks under way and establish the earliest possible completion date.

Because CPM can alert you to potential problems ahead of time you should use it to develop a preliminary schedule before bidding on a project.

So if you're not currently using CPM, you may want to consider starting to. And if you are using it, there may be ways you can get even more out of it.

Minimize problems early on

CPM may not always shorten the time you need to complete a project, but it can ensure that the time you budget is realistic.

Making a preliminary schedule requires you to consider the equipment, labor and materials needed to complete a job, as well as when you'll need them. That allows you to plan for costs such as equipment rentals or temporary extra workers,



which, in turn, means you can keep those costs as low as possible.

To be effective, however, CPM must be used early. The sooner you begin developing a CPM schedule, the better. In fact, because CPM can alert you to potential problems ahead of time you should use it to develop a preliminary schedule before bidding on a project.

Once you have the bid, you'll need to update your preliminary schedule to reflect additional details and to add or remove anticipated expenditures. You can also develop "what if" scenarios that show you how to avoid or respond to problems.

Anticipate delays

As construction begins, you'll need to maintain and control your CPM schedule by entering activity start and finish dates, changes in the sequence in which activities are performed, weather delays, differing site conditions, and other unexpected alterations to the original plan.

As a project progresses, you can use the CPM schedule to work around any problems that arise

with minimum disruption or delay. More important, CPM can flag potential problems in time for you to correct them. With CPM, you can see immediately how, for example, late delivery of materials will affect not only the portion of the job for which they are required, but also how the delay will impact other areas of the project. Moreover, CPM can help you develop a proper price for any resulting change orders.

Generate reports to keep you on track

As your projects proceed, CPM can generate reports showing you critical details such as planned vs. actual labor costs, monthly and cumulative costs, and time and cost to complete. Armed with your original plan and regular updates, CPM can also simulate ways in which you can speed up the project to meet an owner's demands — and the ways in which you can't.

Finally, when the project is complete, CPM provides the actual time, labor, materials, crew mix and other important data that can help you bid more accurately on future projects. A CPM schedule and reports also can substantiate any additional billing you may need to submit.

Save time and money

CPM can appear daunting at first, and there's no question that it requires some additional time. But CPM also allows you to analyze performance, design corrective actions as needed and review and revise standards. Properly updated, CPM can help you predict the costs and time required for incomplete activities and create a recovery schedule to help you bounce back from delays.

Time is always important on a construction project, and a properly designed and maintained CPM schedule can save a lot of it. ↗

You've got 'em — now keep 'em

Reducing staff turnover requires more than money

You've spent years building your business, making your name and assembling an excellent staff. The challenge now is to keep that top-caliber staff on your payroll.

Know what you're up against

Construction is a fast-growing industry, according to the U.S. Bureau of Labor Statistics. Single-family construction, for example, jumped 19% in 2004. But most construction businesses still employ fewer than 20 workers.

Translated, that means your employees have options. They can easily find new jobs — especially in the South, where the scope of reconstruction following last fall's hurricanes is monumental.

And the cost of finding and training new employees (added to the lost productivity and additional work required to fill in for someone who leaves) makes it



financially prudent for you to do all you can to keep the employees you have.

Show more than money

It's true that people won't work for free. But you'll need to offer more than money if you want to retain your best employees. In study after study, workers rate recognition, clear expectations, training, tools and communication as the top reasons they stay with their employers.

DON'T OVERLOOK SEASONAL WORKERS

Seasonal employees can be the backbone of contractors' work forces for parts of the year in most areas of the country. Fluctuating work schedules make it difficult to predict how many such workers you'll need — or how long you'll need them — but you should try to encourage your best seasonal workers to return for the next construction cycle.

Start your retention efforts when seasonal employees end their work for the year. Give them feedback on their performance, and let them know you appreciate their efforts. Also, consider offering incentive raises to those who are willing to come back when you need them again.

Returning seasonal workers already know how you work. They don't require as much training and may even save you money by helping train new seasonal workers for the next construction season.

You depend on seasonal workers, but you can't depend on them to return year after year unless you give them good reason.

to make suggestions that impact decisions, not only will they be happier, but they may also show you better ways to do some things.

Other ways to make your employees want to stay include the following:

Be fair. Your newest whiz kid may deserve a raise and promotion, but if you give that person all the plum assignments you'll erode a lot of goodwill among the people who have been around longer. Assign tasks equitably to avoid resentments, because even the best of the best can't build a structure alone.

Be available. Your employees look up to you, and they appreciate having your ear occasionally. Take the time to learn about their abilities and skills and meet with them periodically. You'll be seen as a caring boss and you'll know what's going on with your business.

The good news for you is that much of what workers want costs little or nothing to provide.

What it does require is that you and your supervisors pay attention. Employees want to be valued for a job well done, and something as simple as taking the time to notice and acknowledge good work can do wonders for morale.

Beyond that, help your employees succeed by making sure they understand what you expect of them. Be clear about how you want work done, how you expect employees to behave on the job site and what you want to accomplish in a certain period of time. Then provide feedback so they know how they're doing, and, for those who don't measure up, either transfer or fire them if they don't improve within a set time period.

Leave room for innovation

In laying out your expectations, however, leave room for innovation. Satisfied employees feel they have some control over their work and that you trust them to get the job done right. If they feel free

Encourage growth. Cross-training, or training in a new area, gives employees a sense of pride and accomplishment as well as giving you more options when you need someone to fill in for a few days.

Be creative. Along with a competitive salary and top-notch working conditions, employee benefits can make or break an offer for employment. Team up your insurance plans with a Health Reimbursement Arrangement (HRA), Flexible Spending Account (FSA) or Health Savings Account (HSA) to help them better cover their medical needs while saving tax dollars.

Go beyond the paycheck

You've worked hard to attract your top employees, and you need to work just as hard to keep them. In this area, though, more than money matters. Remember that your employees also value recognition, clear expectations, training, tools and communication in their jobs. Satisfy those areas and you'll likely have long-term, loyal employees. **T**

Boomers boom into second homes

As the baby boomers edge ever closer to retirement, they're looking for new places to live — and they're looking now. The second-home market is surging as boomers (those born from 1946 through 1964) treat themselves to vacation, retirement or investment property.

The National Association of Realtors (NAR) says that, in 2004, 2.82 million second home sales were recorded — more than a third of all homes purchased. While many of those sales were in hot spots such as Colorado and Florida, the trend encompasses every area of the country.

What does that mean to you? Baby boomers are creating a huge market for second homes, and many of them will be custom built.

Buyers are ready

There's more good news: Second-home buyers usually have cash and financing in hand when they start looking. These buyers take some of the risk out of building speculation houses; plus, they may be ready and able to build their dream homes on property they already own.

And it's not only the wealthy boomers who are looking to get away. The NAR found that in 2004 the typical second-home buyer earned \$71,000 and paid \$190,000 for the second home.

Forget the blah

Many baby boomers are choosing not to flock to traditional or trendy locations. Many are finding getaways no more than an hour or two from their primary homes.

Wherever they're looking, though, they're likely to

be searching for places to relax and enjoy life. Waterfront property is in huge demand, be it on an ocean, lake or river. At the opposite end of the landscape spectrum, some boomers are attracted to the relatively remote beauty of the New Mexico and Arizona deserts and of the Rocky and Appalachian mountains.

The most popular second-home markets, however, are within a half-day's drive of a metropolitan area, which may be an indication that boomers aren't planning to live their parents' retirement lives.

Many boomers are looking for vibrant, independent lifestyles in areas that offer more than staid activities with people their own age. They may even want to stay in the neighborhoods in which they've put down roots — but 50% of people in their 50s told a Del Webb poll they want new homes for retirement.

With those homes, they're looking for walking trails, fitness activities and educational opportunities as well as the cozy fireplace and soothing lake view.

Big business for builders

Experts say the demand for second homes should continue for another decade before leveling off or



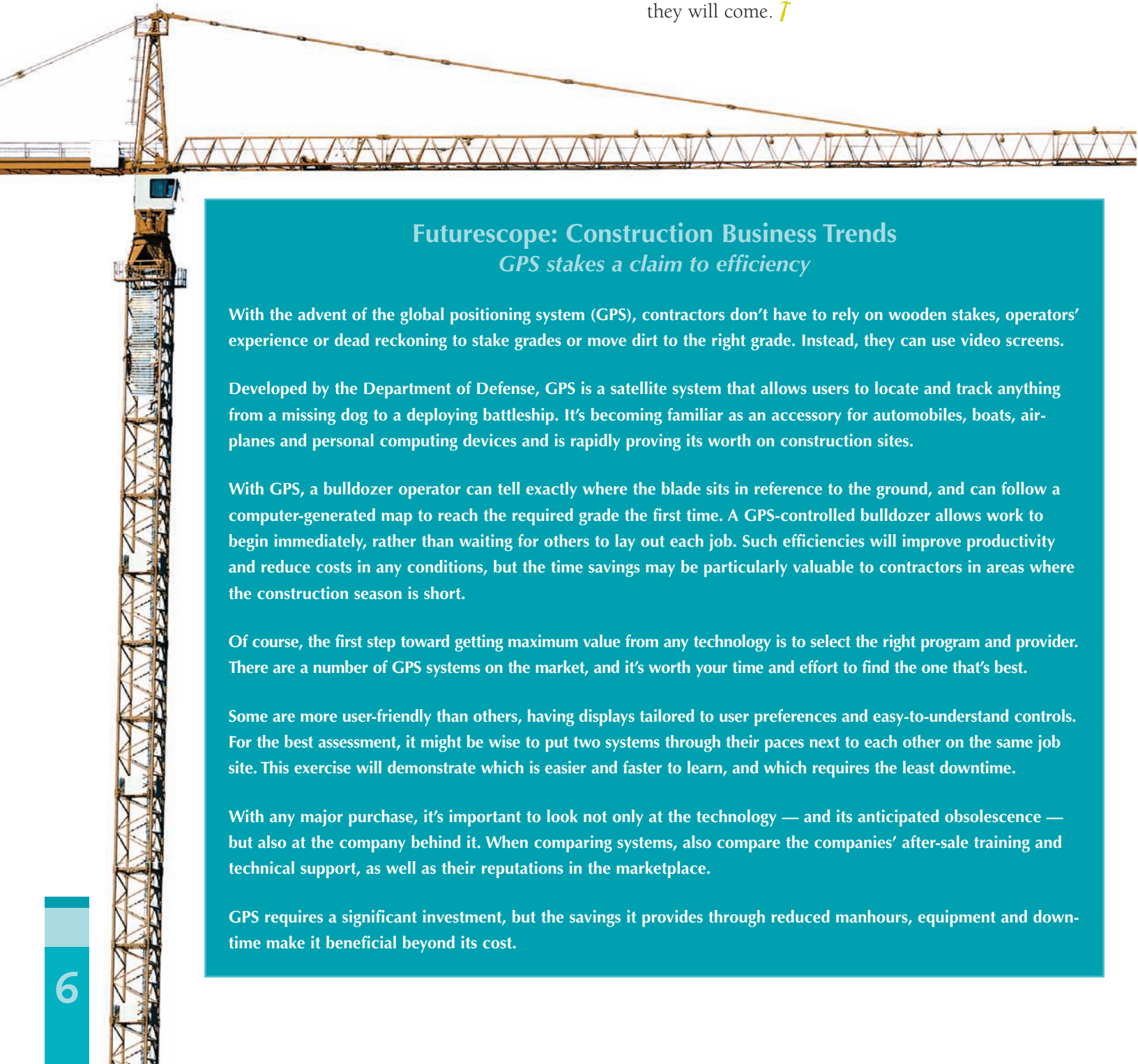
decreasing, even if mortgage rates increase. That means savvy homebuilders who understand their markets have an opportunity to make money by building and marketing houses and condominiums geared toward boomers.

It's important to keep in mind, though, that while boomers may be aging, they aren't slowing down, and they're not willing to sacrifice comfort for affordability. While some may start their second-home ownership with condos, they're likely to move up to single-family homes before they retire.

Tap the market

When boomers look for their second homes, help them find you. If you're building spec houses, choose a location away from the hustle and bustle of the city — but not too far away. Even an hour is far enough if the setting and amenities are right. Whether you have woods or water, mountains or desert, though, do some research to learn what second-home buyers are looking for.

The boomer second-home market is booming, but boomers know what they want. If you can build it, they will come. *T*



Futurescope: Construction Business Trends

GPS stakes a claim to efficiency

With the advent of the global positioning system (GPS), contractors don't have to rely on wooden stakes, operators' experience or dead reckoning to stake grades or move dirt to the right grade. Instead, they can use video screens.

Developed by the Department of Defense, GPS is a satellite system that allows users to locate and track anything from a missing dog to a deploying battleship. It's becoming familiar as an accessory for automobiles, boats, airplanes and personal computing devices and is rapidly proving its worth on construction sites.

With GPS, a bulldozer operator can tell exactly where the blade sits in reference to the ground, and can follow a computer-generated map to reach the required grade the first time. A GPS-controlled bulldozer allows work to begin immediately, rather than waiting for others to lay out each job. Such efficiencies will improve productivity and reduce costs in any conditions, but the time savings may be particularly valuable to contractors in areas where the construction season is short.

Of course, the first step toward getting maximum value from any technology is to select the right program and provider. There are a number of GPS systems on the market, and it's worth your time and effort to find the one that's best.

Some are more user-friendly than others, having displays tailored to user preferences and easy-to-understand controls. For the best assessment, it might be wise to put two systems through their paces next to each other on the same job site. This exercise will demonstrate which is easier and faster to learn, and which requires the least downtime.

With any major purchase, it's important to look not only at the technology — and its anticipated obsolescence — but also at the company behind it. When comparing systems, also compare the companies' after-sale training and technical support, as well as their reputations in the marketplace.

GPS requires a significant investment, but the savings it provides through reduced manhours, equipment and downtime make it beneficial beyond its cost.

The Contractor's Corner

Do I have to report reimbursements for employee-owned tools?

I understand the IRS has issued a new ruling regarding employee-owned tools. Many of my employees supply their own tools, and I reimburse them. What effect will the new ruling have on them — and me?



The IRS did, indeed, issue a new revenue ruling in August 2005 to clarify that estimates can't be used to substantiate any expenses for which you reimburse employees — you must use actual expenses. What that means to you and your employees depends on how you reimburse workers for the tools they provide and use on your jobs.

Income or accountable plan

If you provide a tool allowance or reimburse for tools based on how often employees use them on your jobs, it's highly likely you'll have to treat that money as wages or other income on the workers' W-2 forms. That also means those amounts are subject to withholding and income taxes.

If you treat tools the way you treat other expenses — that is, require a receipt and repay the cost in full when the receipt is submitted — the new ruling won't have any effect. What you've essentially established is an accountable plan, which allows you to ignore those expenses for purposes of wage statements, taxes and withholding.

To qualify as an accountable plan, in which payments are excluded from gross income, your reimbursements must meet the following three tests:

1. Workers must substantiate the expenses, most often through an expense report showing the business nature of the expense and the amount expended.

2. Any money you pay in excess of substantiated expenses must be returned to you.
3. The expense must be directly connected to the business.

While you may use estimated expenses to establish the business connection, you must use actual expenses to support the other two requirements.

What works and what doesn't

How do those requirements translate to actual practice? If you give a tool allowance to your employees to buy needed tools, that won't qualify as an accountable plan — unless they keep receipts for all purchases and return any of the allowance they don't use.

Similarly, if you reimburse employees a percentage of the cost of their tools based on the percentage of time those tools are used on your jobs, it isn't an accountable plan. Neither is a combination of allowance and percentage, in which you provide the tool allowance and estimate the tool expenses that were incurred.

Even an arrangement in which you provide a tool allowance, your employees track the actual number of hours in which the tools are used, and overpayments are returned to you won't qualify. That's because the hours used don't translate to actual expense — not to mention that such an approach would be likely to raise frustration levels on both sides.

More taxes likely due

In short, the IRS ruling regarding employee-owned tools means that you are required to report any reimbursements for which you don't have proof of actual expenses. And, much as they may not like it, employees will have to pay taxes on those reimbursements. **T**

Meet Rusty Little, CPA



Rusty has more than 19 years of experience specializing primarily in state and local tax matters, cost segregation studies and large corporate clients. During his seven years with Elliott Davis, he has provided tax services to a broad range of clients including commercial and residential contractors, real estate developers and manufacturers. Within his construction industry client base, he specializes in state and local tax consulting and cost segregation studies.

“We are seeing increased state tax audit activity in the construction industry due to the fact that contractors now operate in multiple states more than they ever have before. The movement of equipment and materials into and out of states for projects creates numerous multi-state income and sales taxation pitfalls along with planning opportunities,” Rusty notes. “In addition to multi-state income and sales tax concerns, states are also examining withholding tax issues as they relate to services provided by employees in more than one state. Construction industry taxpayers should take the appropriate amount of care when doing business across state lines to minimize tax exposure that could linger long after a project in another state is completed.”

After graduating magna cum laude from Bob Jones University, Rusty began his career with a national accounting firm and later worked for two public companies as Director of State and Local Taxes. He is a certified public accountant in South Carolina and Georgia, a member of the American Institute of Certified Public Accountants and a member of the South Carolina Association of Certified Public Accountants. Rusty can be contacted by phone at (706) 826-7707 or by e-mail at rlittle@elliottdavis.com.

Is Your Equipment Making Money for You?

With fuel price increasing steadily and insurance costs rising with every renewal, contractors must closely guard existing equipment fleet costs by scrutinizing potential purchases and ensuring that costs associated with each equipment item are accurately captured and recorded. Taking time to carefully think through an equipment purchasing plan can make the difference between purchasing a money maker and a potential loser, so care must be taken in crafting a plan that will serve the company's needs.

Evaluating and choosing the right equipment is the first critical step in the process, and there are many considerations in this initial decision. Is the equipment the right size and does it have the right set of features for the range of tasks it will perform? Purchasing a track loader may work well for an upcoming job, but it may be either too big or too small for other jobs in your backlog, making it difficult to recoup the capital invested.

The first step in evaluating equipment choices is to compare competitive brands. Caterpillar, Kubota, John Deere all make similar equipment and a comparison of the features and benefits on a particular piece of equipment may keep you from going too big or too small in your purchase. Also, you may want to consult with other contractors regarding the equipment they use for any feedback they may have on their own fleet.

Having chosen the correct equipment, determine the best financing option for your situation. Whether you purchase the item outright, finance with a financial institution, or lease on a capital or operating lease, make the correct decision for your company's financial situation. Get your accounting department involved in the decision-making process and consult with your CPA so that you have all the information

you need before deciding whether to use an operating lease and expense the cost of equipment as you go, or purchase and expense the amount over the useful life of the equipment. Your CPA can also assist you in determining which of these options best fits into your overall tax planning strategy.

Once the equipment is selected and financed, it is time to place it into service. However, in order to determine the equipment's profitability, a method for tracking costs must be in place. A myriad of cost tracking methods exist, from simple manual record keeping to state-of-the-art GPS tracking systems that offer a wide variety of information on location and use of equipment. Most accounting software packages offer a module allowing the tracking of equipment costs including odometer readings, lapse of time, or actual hours of usage of the equipment. The critical step here is to ensure that equipment costs are integrated into the job cost records.

Ideally, a contractor should know what any equipment cost is at any give point in the lifecycle of a job. Profit reports generated from careful analysis of the equipment tracking records should reveal whether or not current equipment rates are sufficient to cover all costs associated with that any given of equipment. In fact, each component of a contractor's equipment fleet should be considered a cost center and evaluated according to its profitability. Only then can contractor make well-informed decisions regarding the useful and profitable lifecycle of equipment and determine what new equipment purchases or lease are best. The time and attention that a contractor devotes to properly developing an equipment purchasing plan and cost tracking system is an investment that pays big dividends.

Get To Know Elliott Davis

Since 1925, Elliott Davis has been the accounting advisor and auditor that improves the financial management of small and middle market clients by personally applying national-caliber resources to a broad range of business services. Our mission is simple — help every client achieve the highest level of success and peace of mind possible. That philosophy has helped make us one of the largest CPA firms in the Southeast, and among the Top 60 in the nation.

To learn more about Elliott Davis and how we can help you position your company for sustained profitable growth and continuing success, call us at (800) 503-4721 or visit our Web site at www.elliottdavis.com.

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
- ☒ Employee Benefits
- ☒ Information Technology
- ☒ Litigation Support
- ☒ Employee Benefits Consulting
- ☒ Tax Planning and Preparation
- ☒ Wealth Management Services

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