



A **CFMA** KnowledgeNOW Webinar

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Cash Flow Management

How to Maximize Strategies to Meet Business Demands



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Presenters



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Introduction

- Topics
 - Optimize overall debt and financing structure
 - Adapting to the changing economy
 - Develop strategies to maximize cash flow and working capital



The Basics

- Why is Cash Important?
 - Allows company to be liquid and provides spending power
 - Enables a company to meet its demands
 - ◇ Operating – Day to day expenses
 - ◇ Investing – Equipment purchases
 - ◇ Financing – Debt payments and distributions/dividends
- What is Cash Management?

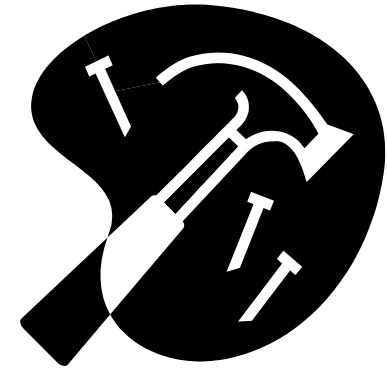
How to Optimize Debt/Financing and Equity Structure

- What is capital structure and why should I be concerned with it?
- What is included in your capital structure?
 - Equity
 - Debt
 - Other



Seeking Optimal Capital Structure

- Is debt free the optimal capital structure?
 - Not necessarily the best course of action and structure
- Then what is the Optimal Capital Structure?
- Basic steps
 - Define needs
 - Identify regulatory restrictions
 - Identify risk restrictions
 - Identify specifics (range, amount and cost)
 - WACC
 - No single best option or right answer



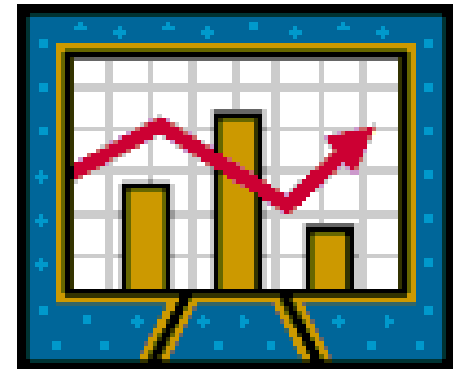
How to Optimize Debt/Financing Structure

- Leverage Best Practices
 - Cash needs
 - Where to get cash
 - Banking relationship
 - ◊ Banking Tools
 - Acquiring Capital Expenditures
 - Increase Bonding Capacity
 - Excess Cash strategy



Adapting to the Changing Economy

- Monitoring Controls Around Cash
 - External Factors
 - ◇ Maintaining relationships on the outside
 - ◇ Utilize favorable contract terms
 - ◇ Review outstanding AR
 - ◇ Change order approval
 - Internal Factors
 - ◇ Improving controls around cash
 - ◇ Proper tax strategies
 - ◇ Reconcile and project cash



External Factors

- Maintaining Relationships
 - Banking Relationship
 - ◇ Communication is key! Earlier the better!
 - Owner/GC Relationships
 - ◇ Are they reliable?
- Favorable Contract Terms
 - Define substantially complete
 - Set terms for collection of retainage

External Factors (Continued)

- Review Outstanding AR
 - Close out completed contracts
 - Identify amounts over 60
 - ◇ Make sure to have project managers follow up
 - ◇ Hold monthly meetings to review AR
- Change Order Approval
- Utilize Credit

Internal Factors in Your Control

- Billing and Receipts
 - Bill early and accurately
 - Deposits done quickly
- Disbursements
 - Pay within terms, not earlier
 - Negotiate longer supplier terms
 - Reduce prepaid expenses
- Employ the Right People
 - Do your due diligence on new hires
 - Set up controls in the organization to provide safeguards on fraud or theft



Other Internal Factors

- Taxes – Are you utilizing the most appropriate tax strategies?
- Reconcile Cash Frequently
- Project Cash
 - Perform Cash Projections
 - ◇ Long Term
 - ◇ Short Term



Developing Strategies on Maximizing Cash Flow and Increase Working Capital

- Why is it important?
- 3 topics to cover:
 - Cash flow strategies
 - Cash flow forecast models
 - Improving working capital



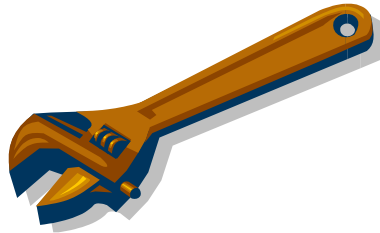
Cash Flow Strategies

- 2014 outlook
- Where to begin?
- Common factors cash flow stress
- Other strategies



Cash Flow Models

- Planning For Cash Flow—Different Types of Models
 - Single Project: individual project without regard to other projects
 - Multi project: aggregation of all project cash flows over specific period
 - Company: takes into account general and overhead costs and revenues as well as site



Cash Flow Model Example-Project Based

COMPANY

CashFlow Forecast

PROJECT

PROJECT

PROJECT

Month

Month

Month

Client/Project Type

6/30/14

7/31/14

8/31/14

Beginning BOOK Cash

65,000

126,400

211,155

Revenue Cash:

Profit Margin

40%

Roof Income

115,000

155,000

195,000

Roof Costs

(82,100)

(110,700)

(139,300)

50%

Deck Income

225,000

264,000

24,500

Deck Costs

(150,000)

(176,000)

(16,300)

Net cash receipts from Contracts

107,900

132,300

63,900

Cash Flow Model Example-Project Based

	Month <u>6/30/14</u>	Month <u>7/31/14</u>	Month <u>8/31/14</u>
<u>Payroll/Benefit Related:</u>			
Payroll + Employer Payroll Taxes	27,450	33,500	28,700
Payroll Fees			
Workers Comp Insur (enter calc)	3,500		
ER Portion-Medical Insurance	1,200	1,200	12,000
<u>Rent & Utilities</u>			
Office Rent	4,600	4,600	4,600
<u>Insurance:</u>			
Auto	500	500	500
Project	1,400	1,400	1,400
<u>Other Expense / Payments:</u>			
Auto Costs (fuel/maint/mlg)	1,400	1,800	2,800
Meals & Entertainment	100	120	100
Postage/Delivery - Courier	50	50	50
Office Supplies	700	750	700
Marketing	2,500	1,900	1,500
Bank/Credit Card Processing Charges	400	300	200
Licenses, Dues & Membership	1,400	100	500
Computer/Software			
Travel	1,300	1,325	1,300
Total Disbursements	<u>46,500</u>	<u>47,545</u>	<u>54,350</u>
Cash Receipts minus Disbursements	<u>61,400</u>	<u>84,755</u>	<u>9,550</u>
Ending BOOK Cash	<u>126,400</u>	<u>211,155</u>	<u>220,705</u>

Working Capital Monitoring

General Contractor's Working Capital Analysis

As Of December 31, 2013

<i>Projects in Process</i>					
Project Name	Contract Amount	% Complete	% Remaining	\$ Remaining	5% - Contract
Job 1008	11,263,385	77%	23%	2,643,322	132,166
Job 1009	21,579,543	48%	52%	11,245,195	562,260
Job 1010	21,737,402	37%	63%	13,619,790	680,990
Job 1011	66,682,565	17%	83%	55,594,059	2,779,703
Job 1012	36,810,824	8%	92%	34,001,113	1,700,056
Job 1013	33,572,138	2%	98%	32,779,410	1,638,971
Total Contracts Remaining				149,882,889	7,494,146
Total Required Working Capital					7,494,146

COMPANY INC.
RATIO ANALYSIS
5/31/2014

Working Capital	(a)	\$	5,642,272	GOAL:	\$4,000,000 or higher
Tangible Working Capital	(b)	\$	5,233,902		\$4,000,000 or higher
5% of Backlog		\$	7,739,534	GOAL:	Less than Actual W.C.
Current Ratio	(c)		1.19	GOAL:	1.1 or higher
Quick Ratio	(d)		0.89	GOAL:	1.1 or higher
Cash Flow from Operations to Current Liabilities	(e)		0.74%		
Net Job Borrow	(f)	\$	3,798,643		

Comparison to CFMA "Best in Class" 2009 Results

		<u>Company</u>	<u>Industry</u>
Return on Assets	(g)	2.86%	25.30%
Debt to Equity	(h)	20.04	1.9
Working Capital Turnover	(i)	9.27	11.5
Gross Profit		7.4%	10.8%

Conclusion

10 Rules of Cash Flow

1. Cash is King!
2. Never Run Out
3. Know the cash balance now
4. Do today's work today
5. Do the work or get someone else
6. Don't manage from the bank balance
7. Know your needs over the next six months
8. Cash flow problems don't just happen
9. Have cash flow projections
10. Take care of customers



QUESTIONS?



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Thank you for your participation!

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Save the date for CFMA's next KnowledgeNOW Webinar on
September 10th when Moss Adams presents...
"All Hands In: A Contractor's Guide to ESOPs"

For registration details visit www.cfma.org



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