

# CONTRACTOR

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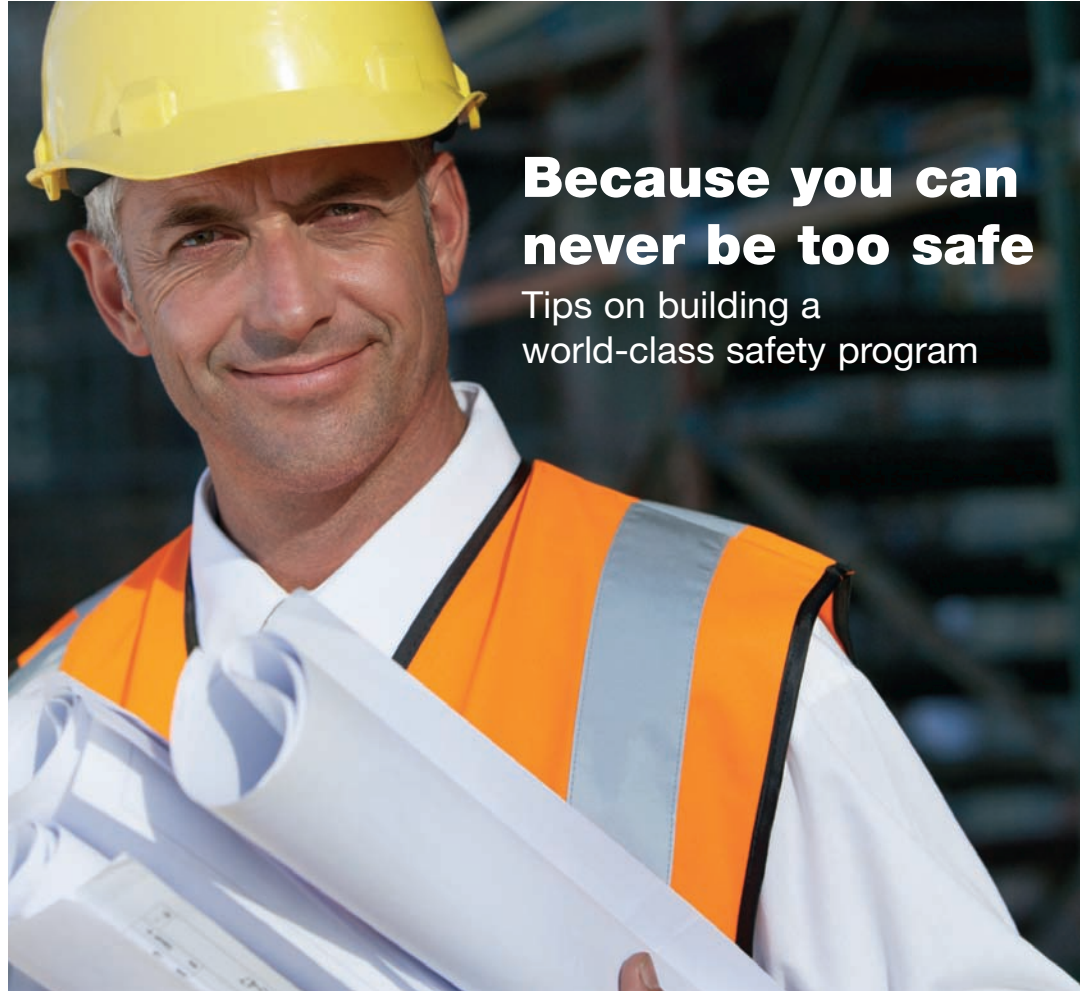
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**Because you can never be too safe**

Tips on building a world-class safety program

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*Not The Same Old Bottom Line*

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# Because you can never be too safe

## Tips on building a world-class safety program

**O**n any project, safety is everyone's business. But, as the owner of your construction company, the buck stops at your desk. So, you must do all you can to develop a quality safety program that not only reduces job-site injuries and workers' compensation claims, but also speeds project completion and enhances revenues.

If your safety program has served you well, you may be tempted to think you've got things covered. But just as you can never have too much money in the bank, you can never be too safe on the job site. Here are some tips on building a world-class safety program.

### Map it out and write it down

When it comes to safety, being organized is key. Carefully map out your safety program to include:

- Policies that address the distinct risks to your construction company and specific procedures to minimize these risks,
- Training programs on every policy and procedure,
- Communication avenues, including who reports safety-related incidents to whom and what recordkeeping practices should be followed for safety-related incidents,
- A means for measuring success, and
- Resources needed to maintain safe job sites.

In every area, be sure your goals are clear, achievable and measurable. If you're not sure where to start, decide where safety improvements are most needed and address those areas first. For example, if your program is basically going well but you still have some employees who aren't cooperating fully, focus initially on training.

**Supervisors who see unsafe work practices should take the employees aside and offer training immediately.**

When you have your plans in place, develop a safety manual that details your policies and procedures as well as the consequences for noncompliance. You may not need to hire professional writers and designers to produce the manual, but make sure it clearly communicates your expectations. (Sometimes a few extra dollars spent on a proof-reader can work wonders.)

### Train smarter

We've mentioned training a couple of times, but it still merits a more in-depth discussion. Many construction companies have good safety programs *on paper* yet don't have good safety programs *in practice*. For example, do you train foremen and other supervisors before you train laborers? Maybe you should reconsider this line of thinking.

Instead, have senior managers (or outside training staff) train job-site workers *before* they train foremen and other supervisory personnel. That way, you can be sure transient workers and new employees with no safety knowledge are getting the benefit of the best training you have to offer. Then go up the ladder, rather than down.

In addition, contrary to conventional wisdom, your safety program doesn't have to mean unreasonable additional costs. You're already required





to meet regulatory safety requirements, so build on those to get to the next level.

For instance, OSHA courses are a minimum. But this agency also offers “train the trainer” courses at education centers throughout the country, allowing you or one of your employees to teach the 10- and 30-hour courses to laborers and foremen, respectively. See OSHA’s Web site ([osha.gov](http://osha.gov)) for more information.

### **Plan (and work) better**

Make safety a part of your preproject planning process. In assessing the manpower, tools, materials and other components required for a job, look at the risks involved. (General contractors should also be aware that they may take on safety obligations under contracts with subcontractors and owners. Therefore, their safety programs should reflect these obligations.)

If you’re going to be working in a public area, for instance, consider what types of protection you’ll need to provide. Include the cost of the labor, materials and tools required to build or install proper protection in your preproject planning so you don’t need to scurry around at the last minute looking for chain-link fencing or scaffolding.

As the job gets underway, conduct site orientation for every worker. Walk employees through the site,

## **Do you need employment practices liability insurance?**

A world-class safety program will protect employees from harm, but it won’t protect you from legal actions as a result of your employment practices. To mitigate this risk, insurers offer employment practices liability insurance (EPLI).

Essentially, EPLI protects you, your construction company and, often, your senior management team against expenses arising from employment-related lawsuits. Your insurer is generally obligated (barring certain exclusions and limitations) to defend you against employment-related lawsuits — even if they’re frivolous. You may even be allowed to select your own defense attorney.

Premiums for the coverage vary according to each company’s size, history, human resources policies and similar risk factors, as evaluated by the insurer. So, as with any potential purchase, you should scrutinize EPLI coverage before you buy it.

Look at whether the deductible applies per claim or per claimant; whether you can notify the carrier of “circumstances” rather than actual complaints; who within the company must be aware of complaints; and when you’re required to notify the insurer that a complaint might be filed.

pointing out and discussing potential hazards (and, of course, fixing any that you can). Low spots in the ground, for example, could retain water after a rain or cause someone carrying materials to stumble.

At the same time, emphasize your zero-tolerance attitude toward safety violations and review your safety manual — including your enforcement policies. Encourage ongoing compliance with on-the-spot training. Supervisors who see unsafe work practices should take the employees aside and offer training immediately. Doing so will improve safety as well as stress your commitment to it.

### **Commit yourself**

When it comes to safety, lip service or a quick-fix mentality won’t work. A world-class safety program entails careful planning, consistent execution and, most important of all, your commitment. By championing this effort you’ll help build a happier, more motivated workforce — and your bottom line. ■

# When choosing accounting software, it pays to be picky

**S**electing an accounting system (or upgrading a current one) can be a pain. Most contractors would rather visit a job site or pore over some building plans than try to decipher the myriad technical features of the latest financial management software.

Yet it pays to be picky. The right accounting application can offer you a faster, more accurate way to track your construction projects and finances and identify ways to improve your construction business. And relying on an outdated system may actually cause delays and errors that can cost you money.

## Review your existing system

Most accounting systems perform the same basic functions. The differentiators are how they process and deliver information. Look at your existing system to determine where data bottlenecks and errors are most often occurring and which tasks are consuming most of your employees' time.

Start by talking to the people who use the system every day. They know which features are essential and which are not. And don't ask only your office staff. Find out what functions your managers and foremen like and dislike.

For example, maybe they're frustrated by the system's limited accessibility. A Web-based solution that's accessible anywhere could speed up financial reporting and facilitate quicker decision making.

Perhaps most important, look into how secure your current system is. It should restrict access to sensitive information to only those authorized to perform certain functions, such as running payroll checks.

## Consider your wants

Next, consider what you'd like to be able to do that's outside your capabilities now. Maybe you want:

- Greater data capacity,
- More sophisticated reporting capabilities,
- More advanced audit trail capabilities, or
- A system that's simply easier to use.

Are errors a problem? Then look for software that tests for mistakes, such as duplicate entries or



incorrect item numbers, and then prevents users from going forward until the errors are corrected.

Also look at the big picture. Do you want to integrate your accounting software with your billing, inventory and accounts payable systems? If so, evaluate the costs and training requirements for this more expansive solution.

Find an accounting system that addresses your top priorities first, but recognize that you'll probably need to customize at least parts of whatever system you choose. Look for software that can be adapted to fit your operations.

Last, determine how readily the prospective system will grow with you. Some software comes in families, allowing you to upgrade to more robust solutions over time. Others are standalone applications that you may have to replace entirely but might provide a more cost-effective option for smaller construction companies.

## Change prudently

When evaluating your current software, be sure to check that you have the most recent updates and perhaps meet with a rep for your current program to see whether your existing software has capabilities that have gone unnoticed or underused. If you do decide to change to a new system, consider running the systems in parallel for a time to ensure that no data is lost during the transition. ■

# Help build tomorrow's workforce today

In hopes of mitigating the labor shortage that has plagued the construction business for some time now, a variety of industry organizations have launched programs designed to draw new workers into careers in the construction industry. You can help spread the word — and build tomorrow's workforce today — by getting involved on the local level.

## 4 better-known efforts

Four of the better-known efforts to provide on-the-job training, scholarships, college curricula and specialized training for students interested in construction jobs include:

1. The “Make It Happen” campaign, sponsored by the Home Builders Institute,
2. The Homebuilding Education Leadership Program, sponsored by the National Housing Endowment,
3. Construction Career Academies, sponsored by Associated General Contractors of America, and
4. The School-to-Career Registered Apprenticeship Program, sponsored by the National Center for Construction Education and Research.

To succeed, however, these and other educational efforts need help from contractors. The advantages to you are many. You'll be helping to build a stable supply of local workers for your construction company. In addition, you can strengthen your community and business ties while gaining free access to training resources.

## A program in focus

So what would the extent of your involvement be? The School-to-Career Registered Apprenticeship Program, for instance, relies on contractors to mentor and train high school students. So, if you align your company with this program (or one like it), you would help:

**Identify the right candidates.** You would work with local high schools to design



an equitable student selection process. The criteria should be consistent and transparent and apply to all students. This would also likely mean selecting and training existing employees to act as mentors and supervisors for the high school apprentices.

**Design a well-rounded curriculum.** This would mean identifying basic job skills, such as following directions and mitigating on-the-job conflicts, to teach the students. Naturally, you would want to emphasize safety as you teach these skills.

**By promoting construction careers, you'll be helping to build a stable supply of local workers for your company.**

You would also likely have to ensure that the work you assign students has job rotations that meet the specified learning objectives. And you would need to pay the students a fair wage and provide them with workers' compensation insurance.

**Evaluate the students and issue a grade.** Once the program is under way, you would stay in touch with school personnel to discuss each student's progress and handle any concerns. And you would need to issue a grade regarding each apprentice's skills and knowledge at the end of the apprentice period or as requested.

Of course, apprenticeships shouldn't displace any full-time employees. If your workers seem resistant or suspicious of the program, explain that it's an opportunity for them to share their knowledge and experience — as well as potentially lighten their workloads.

Apprentices may have something to teach their superiors, too. Many programs serve as refresher courses for seasoned job site crews.

## A better future

To get involved in an apprenticeship or training program, contact any of the trade organizations listed above, others you might know of or even a local high school. The efforts you make today could lead to a better future for the construction industry as a whole and your company in particular. ■

# Could FIN 48 make you liable for out-of-state taxes?

**F**inancial Accounting Standards Board Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, is, as its name indicates, intended to clarify ambiguities regarding how companies should account for income taxes. Of course, grasping just how the standard affects your construction company's financial statements may be anything but clear.

## Seeking consistency

FIN 48 affects all entities that issue financial statements generated under Generally Accepted Accounting Principles (GAAP) for fiscal years beginning after Dec. 15, 2006. (As of this writing, FASB is considering a request to loosen or do away with FIN 48 requirements for privately held corporations.)

Typically, FIN 48 applies only to C corporations and, in some cases, S corporations. And the standard applies only if the company must pay federal income taxes. For example, S corporations are sometimes liable for federal built-in gains taxes.

The overall goal of the standard is to create more consistency in the way companies account for their taxes by establishing guidelines for tax position recognition and measurement as well as for income tax reserves.

Companies are required to identify their uncertain "tax positions," or those that have a less than 50% chance of being sustained after an IRS examination,

and assess their potential tax liability. A tax position can include:

- Deciding not to file a tax return,
- Excluding certain types of income from returns,
- Classifying transactions or entities as tax-exempt,
- Characterizing income so that it's taxable at beneficial tax rates, and
- Shifting income between tax jurisdictions.

Additionally, you may be required to restate reserves for all open tax years or years for which the statute of limitations has not run out. In many jurisdictions, the statute of limitations doesn't begin if returns haven't been filed. Thus, there could be no limit on the number of open years for which your construction company may need to evaluate its tax positions.

Once you have decided which tax positions are more likely than not to withstand IRS scrutiny, you must determine how much of the tax benefit or expense to recognize in your financial statements. FIN 48 says you may recognize the highest amount that has at least a 50% chance of being upheld.

## Establishing nexus

As challenging as FIN 48 compliance may be, the real test may come in satisfying states hungry for revenue to replenish dwindling accounts. One way they may seek to do that is by examining corporate tax returns and other financial reporting information for signs of tax "nexus" in their states. (If a taxpayer doesn't file in a given state, the state's tax authorities may also look at payroll taxes remitted.)

States view a wide variety of business activities as creating a connection — or nexus — that would require an out-of-state company to pay state income taxes. In some states, for example, businesses are required to combine tax returns of similar business units. That could trigger sales and use tax liabilities as well as income taxes.

An employee who uses his or her out-of-state home to store business inventory or keep company records could be construed as creating nexus, as could having the business listed in out-of-state telephone directories.



The variations mean that contractors must assess every uncertain tax position according to the laws of each state in which they could have nexus — regardless of whether they actually do jobs or maintain offices in those states.

Getting it right can be tricky, but it's critical to do so. FIN 48 also requires companies to accrue the interest and penalties that would be assessed if an uncertain tax position were not sustained.

For financial statement purposes, interest starts to accrue in the period it would begin to accrue

under applicable tax law. Given the open-ended period of some states' statutes of limitations, this could prove costly.

#### Getting it right

If your construction company works — or could be construed to work — in other states, consult your tax advisor about whether you're meeting the FIN 48 requirements. The penalties for getting it wrong are substantial, and states are likely to be watching more closely. ■



## Construction Success Story

### Homebuilder learns how to “go green” without going broke

As her construction business expanded, a homebuilder in a growing suburban area found herself increasingly thinking about “going green” — that is, building in a more environmentally responsible manner.

Specifically, she wanted to make the houses her company builds more energy efficient and she wanted to limit harmful project waste as much as possible. The contractor just wasn't sure she could do all that and still turn a profit.

To discuss how to mitigate some of the costs of green building, she sat down with her financial advisor. He mentioned that one way to help ensure the profitability of any such project is to work with the developer to properly market the end product.

Drawing on previous research the advisor had done while working with other construction companies, he pointed out certain marketable points, such as:

- Reusing and recycling can divert up to 50% of construction waste from landfills, saving hauling and disposal costs as well as the environment,
- Higher levels of insulation and high-performance windows make homes more energy efficient, potentially lowering heating and air conditioning costs,
- Water-efficient plumbing and appliances reduce water bills,
- Using natural light in as many areas as possible may allow homeowners to save on electricity costs as well as make their houses brighter and more inviting, and
- Designing a more energy-efficient home can require less square footage for desirable amenities, providing more living space.

Familiarizing herself with points such as these enabled the contractor to not only better field questions from potential customers, but also develop a marketing strategy that helped position her construction company as the premier green builder in her market. And that was a distinct advantage in a decidedly up-and-down housing sector.

Ultimately, the contractor wound up providing green building information side-by-side with points about the more conventional construction techniques her company employs. As a result, she found that going green and making a profit aren't mutually exclusive.

# The expertise you need, the service you want.

**A**t Smith & Gesteland, LLP we know that running a successful construction company these days requires more than just dedication and hard work. It takes the assistance of experts who understand the industry and the challenges contractors face, and who have the specialized knowledge, hands-on experience and service commitment it takes to help them achieve their business goals.

Our Construction Industry Services Group consists of experienced professionals focused on increasing the success of companies like yours. For more than 50 years, our firm has served individuals and businesses throughout south central Wisconsin. We are delighted to currently work with more than 100 contractors and to have recently been voted Madison's Number 1 accounting firm. We are ready to assist you with a broad range of services tailored specifically to your needs, including:

- Profitability improvement
- Cash flow projections
- Quality and productivity enhancement
- Estimating/bidding improvement
- Bonding capacity maximization
- Lease vs. purchase analyses
- Tax reduction strategies
- Business valuations
- Succession and estate planning
- Financing assistance / growth management
- Project management and accounting systems
- Litigation and claims support

As specialists in the construction industry, Smith & Gesteland has developed the expertise needed to help contractors address and meet their many challenges. We would welcome the opportunity to help you build your success.

To find out what we can do for you, or for more information about the ideas presented in this newsletter, please contact John Folsom or Steve Pullara at (608) 836-7500 or [mail@sgcpa.com](mailto:mail@sgcpa.com). We look forward to talking with you.

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