



## Case Study ABC Pavement Company

This WBE was on the verge of financial collapse for the past several years, even though they had roughly \$4 million in annual revenues.

### The Issues

**Bad Accounting Practices.** The firm's CPA firm had no specialty in the construction industry. Their accountant had them on an accrual basis, when contractors should be on a cost of completion basis. They had no footnotes in the financial statements, which could have important explained irregularities, giving insight into financial presentation. The firm had grossly overpaid their taxes by hundreds of thousands of dollars over the years because the accountant had them pay on an accrual rather than a cash basis.

**Inaccurate Estimating.** The firm was not capturing overhead and back office expenses in their bids. This overestimated their margins and ability to achieve profitability.

**No WIP Schedule.** The owners had no current understanding of where they stood on their various projects at any given time. Even if they had used a WIP schedule, their numbers would have been inaccurate because of their estimating problem.

**Payroll Issues.** The firm's very complicated payroll situation caused them to have one staff person solely dedicated payroll: compiling payroll, satisfying reporting requirements to various state and federal agencies including certified payroll reports; managing multiple union contracts and associated hourly wages. One person could earn 5 different wages in a given week or project pay period, depending on the tasks they were performing.

**Prospects for Bonding.** The firm's lack of working capital and cash (literally zero balance in 2008 and 2009) kept them from bidding on jobs they were qualified to perform and made it impossible to get bonded. Debt was 4 times greater than equity; total assets were less than \$400,000. They had negative or no retained earnings for the last three years. They financed their assets with debt thanks to the owner's good credit score. They had a Net loss in 2008, and less than 2% profit in 2009 and 2010.

### Turn Around after Five Months in MBDI Programming

Four months into MBDI's course curriculum and one-on-one advisory services, ABC made major changes in its operations as outlined below.

**Accounting.** The firm hired a construction CPA firm that changed their tax structure – the money saved in taxes more than offset the additional expense for specialized accounting. Their financials will be prepared with footnotes, supporting schedules and appropriate methods for their business.



**Estimating.** Through MBDI's hands on treatment and subject matter expert training in estimation, this firm now has a better understanding of proper estimating practices and includes overhead expenses in their bids.

**WIP Schedule.** The firm now uses an Excel Spreadsheet based Work In Progress schedule which enables them to have an up to date understanding of all projects on a continuous basis. They can now track profitability per contract, per quarter, track completed contracts and contracts in progress during a calendar year. This one report provides a comprehensive, detailed analysis of how the company is performing over 12 months.

**Payroll.** Three staff members attended the MBDI in-depth QuickBooks training class. They were able to resolve their payroll issues within QuickBooks through the use of a \$200 software package recommended by the QuickBooks trainer. They have streamlined their payroll process significantly, freeing up the Office Manager to take on other important tasks.

**Access to Bonding.** The sustainable systemic changes taken on by ABC Pavement's management resulted in a bond line of \$1 million in single \$2 million aggregate. We anticipate that the terms and conditions required on this program will be dropped and the line increased within 6-12 months.