



WEST MICHIGAN – CONSTRUCTION FINANCIAL MANAGEMENT ASSOCIATION

CAUSES OF CONSTRUCTION COMPANY COLLAPSE

February 25, 2016

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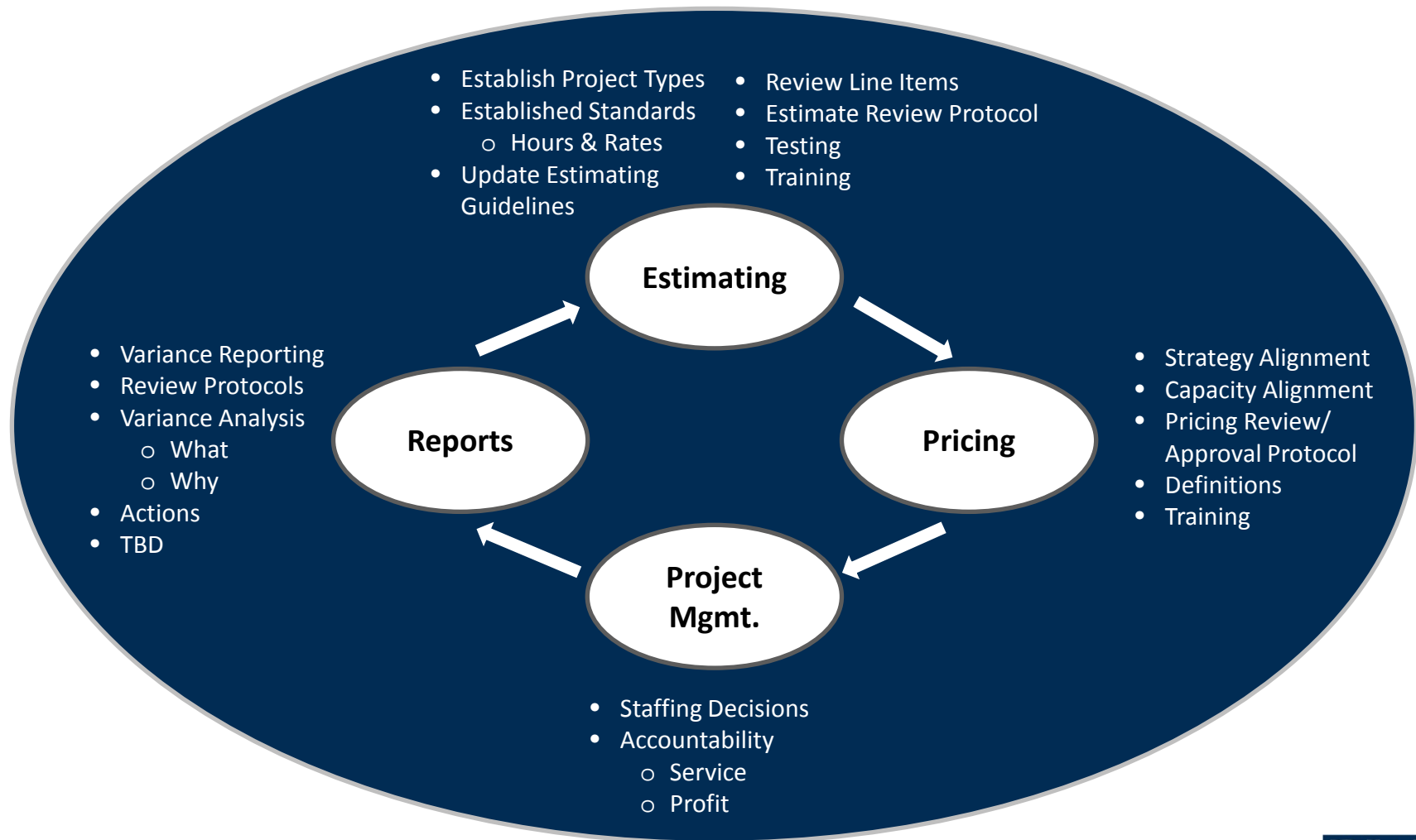
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Internal Controls

- Continuous Improvement Loop
- Cash Flow Forecasting
- Additional Risks to be Managed

Internal Controls – Continuous Improvement Loop

Estimating, Pricing & Project Management Improvement



Internal Controls – Estimating

- Standardized Methodologies
 - Used by all estimators
 - Budget vs. final
 - Fixed price projects vs. time & material
 - Project size and complexity
- Cost Standards
 - Quantities and values
 - Cost categories
 - Material
 - Labor
 - Subcontractor
 - Equipment
- Estimating Theories
 - Cost-Volume-Profit
 - aka: Variable or direct costing
 - Emphasis on contribution margin
 - Full Absorption
 - Includes allocation of fixed costs
 - Emphasis on gross margin
- Documentation and Training
- Internal Review Protocol(s)
- Updated and Revision Protocol(s)

Internal Controls – Pricing

- Alignment with Strategic Plan
- Alignment with Available Capacity
- Pricing Review and Approval Protocol(s)
- Pricing Theories (reference Estimating Theories)
- Connection to Enterprise Forecasts
- Documentation and Training
- Assessment of Risk

Internal Controls – Project Management

- Define Expectations
 - AARA
 - Ability
 - Authority
 - Responsibility
 - Accountability
 - Economic (i.e., meet or exceed estimate)
 - Customer service (i.e., meet or exceed customer expectations)
 - Quality
 - Safety
- Define Staffing
 - Education
 - Experience
 - Project Managers as Estimators
- Communication
 - Field to office
 - Office to finance
 - Frequency
 - Substance

Internal Controls – Reporting

- Information Quality
 - Timely
 - Accurate
 - Relevant
- Standard Reporting
 - Job Cost reports (by cost code and summary)
 - Variance reports (by cost code)
 - Quantitative
 - Qualitative
 - Correction actions
 - WIP reports
- Project Performance Review
 - During project (management by exception)
 - Post project (final reports)
- Reporting Frequency
 - Accounting
 - Real Time
- Financial Reporting
 - Historical – WIP reports connected to financial statements
 - Forecasts – impact on future performance and cash flow

Forecasting

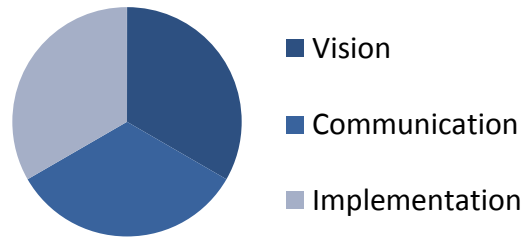
- 13-week rolling cash flow forecast
 - Predict short- and near-term cash position (relative to collateral)
 - Aid management in its short- and near-term decision making related to cash and collateral
 - Improve communication with the business' economic stakeholders
- 12 to 24 month forecast
 - Validate and provide confidence that the company's business model is creating economic value
 - Improve communication with the business' economic stakeholders

Additional Risks Mitigated with Strong Internal Controls

- Multi-State – Regulatory
 - Licensing and registration
 - Sales and use taxation
 - Workers compensation insurance
- Multi-State - Other
 - Reporting
 - Labor Pool
 - Logistics
- Union/Non-Union (NLRB)
- Michigan Builder's Trust Fund Act (similar in other states)
 - Understanding the law
 - Internal controls to assure compliance
- Banking Relationships
- Customer Concentration
- Financial Acumen of Owners/Leaders
- Bonding (and insurance)
- Project Due-Diligence
 - Customer (Owner or GC)
 - Suppliers
 - Subcontractors
- Business Succession Planning
 - Leadership (DWH Model)
 - Ownership

Leadership Model

- Are leaders focused on creating economic value?
 - Maximize cash flows
 - Minimize risk



Vision (Direction)
<ul style="list-style-type: none">• Values (principles)• Strategies

Communication (Alignment of Stakeholder Interests)
<ul style="list-style-type: none">• Identify stakeholders• Identify needs & expectations of stakeholders• Develop & implement communications method whereby stakeholders see that they benefit from the vision

Implementation (Tactical Execution)
<ul style="list-style-type: none">• Plan• Organize• Direct• Control

Contact Information



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Notables & Affiliations

- YWCA West Central Michigan
 - 2016 Board President
 - Board Member
- Turnaround Management Association
 - Past President
- Association for Corporate Growth
- American Bankruptcy Institute

Doug Wilterdink has more than 35 years of experience in corporate finance, public accounting, management consulting, restructuring and turnaround, and transition situations. Doug earned his B.A. from Michigan State University and is a Certified Public Accountant (non-practicing). He founded DWH in 2006 and currently serves as a Managing Partner.

Doug has led restructure and turnaround situations as an employee (CFO and CEO), an entrepreneur, and an outside advisor. Following employment with a public accounting firm, he took a financial management position with a company that was part of a family-owned portfolio. That evolved to leading turnaround and M&A activities for a number of companies in the portfolio. Doug used this experience to purchase a distressed multi-state industrial construction company, which he turned around and eventually sold. This turnaround involved significant changes in strategies and tactics, recapitalization and refinancing, developing and implementing improved forecasting, financial reporting and other controls, and business development and operations improvement initiatives.

Doug applies his hands-on experience to each unique client situation, taking into account all stakeholders affected by a transition situation. He is able to understand, from an entrepreneurial standpoint, all the business items an owner and manager has to think about, including financial management and modeling, contractual relationships, operations, international practices, and corporate administration.

Additional Information - Forecasting

Forecasting – Purpose & Value

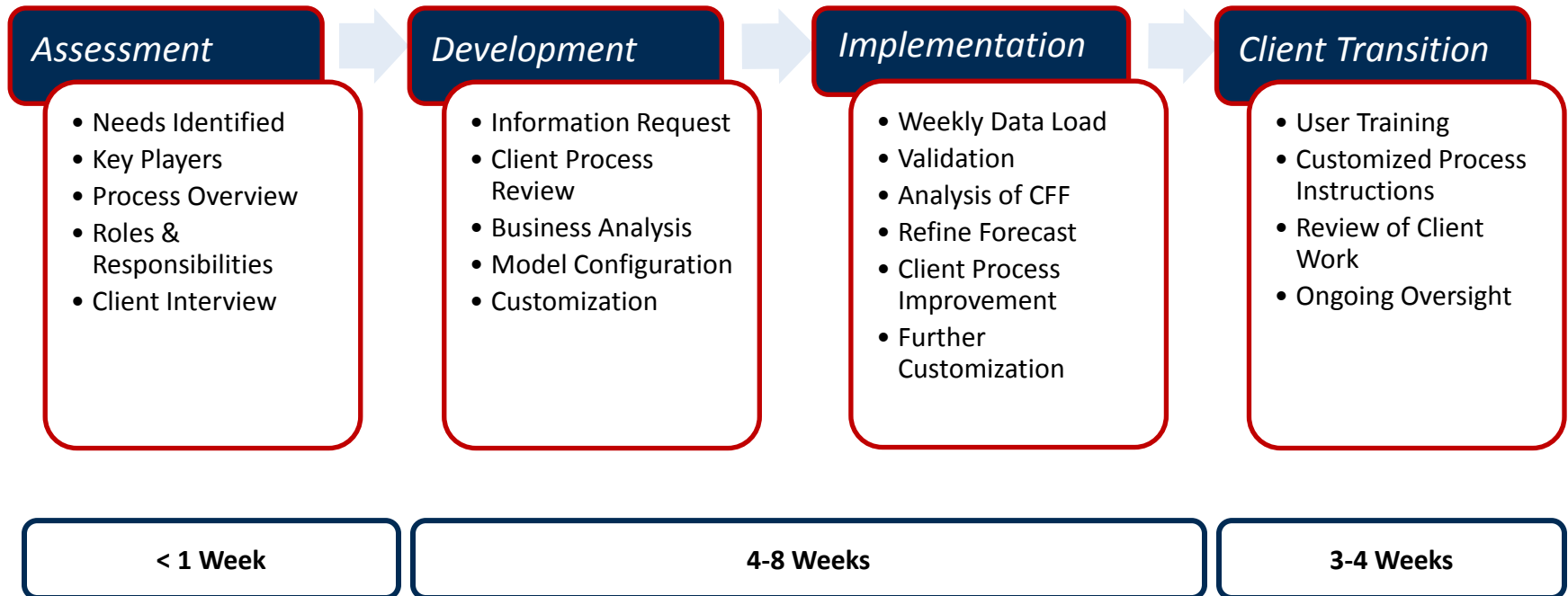
- Cash Management and Decision Making Tool
 - Proactive versus reactive management
 - Improved accuracy
- Predict Cash Flow Relative to Bank Collateral
 - Incorporates caps, ineligibles, advance rates
- Communication with Key Stakeholders
 - Internal - Ownership, Management, Employees
 - External - Lenders, Boards, Investors

Forecasting – Benefits

Significant improvements and efficiencies gained in administrative processes, as well as with the timeliness and accuracy of information critical for financial management and decisions including, but not limited to the following:

- Capitalization and financing terms negotiations
- Customer pricing and terms negotiations
- Timely invoicing and payables entry
- Vendor cost and terms negotiations
- Capital expenditures and related financing
- Fosters proactive collection of accounts receivable
- Accounts payable cut list generation
- Expense visibility and control
- Improved revenue forecasting
- Clear reporting for effective communication with stakeholders
- Variance analysis
- Capability to expand beyond 13 weeks

Forecasting – Process Overview



Forecasting – Model Summary

Generic Company Weekly Cash Flow Forecast

	13 week Tot.	Week 1 5/9/2015	Week 2 5/16/2015	Week 3 5/23/2015	Week 4 5/30/2015	Week 5 6/6/2015	Week 6 6/13/2015	Week 7 6/20/2015	Week 8 6/27/2015	Week 9 7/4/2015	Week 10 7/11/2015	Week 11 7/18/2015	Week 12 7/25/2015	Week 13 8/1/2015
Cash Receipts from:														
Accounts Receivable	5,993,252	1,669,950	250,221	4	Receipts					16,671	8,835	1,064,587	16,727	0
Forecasted Sales - Division 1	4,580,055	0	119,552	1						428,905	428,905	355,018	363,720	497,087
Forecasted Sales - Division 2	1,399,481	0	0	0						96,548	32,183	13,784	4,595	206,569
Total Cash Receipts	11,972,788	1,669,950	369,773	62,548	628,183	1,991,712	289,693	334,761	534,234	1,544,051	385,529	368,315	705,656	2,487,294
Disbursements for:														
Tooling - Material, Components & Sub	641,583	113,859	30,768	10,046	7,679	12,938	6,234	1,535	361,154	0	0	0	97,370	0
Mfg - Material, Components & Sub	5,871,978	429,539	504,378	381,222	194,591	656,437	550,409	371,777	549,615	421,600	421,600	421,600	520,480	457,760
Tooling - Outsourced Die Build	58,980	3,823	0	51,513	3,645	0	0	0	0	0	0	0	0	0
Payroll, PR Taxes, Burden, & Benefits	2,813,244	362,655	85,834	358,552	13,700	361,200	15,051	425,700	13,700	361,200	15,051	425,700	13,700	361,200
Maintenance & Repairs	100,389	1,421	109	6,015	2,670	10,175	10,000	30,000	10,000	10,000	10,000	10,000	10,000	10,000
Supplies	331,518	23,832	20,630	0	0	0	0	0	26,765	25,800	25,800	35,800	25,800	25,800
Freight	96,689	12,030	5,834	0	0	0	0	0	7,000	7,000	7,000	7,000	7,000	7,000
Insurance	1,558	100	0	0	0	0	0	0	485	0	0	0	0	485
Taxes	81,097	0	11,597	0	0	0	0	0	68,500	0	0	0	0	0
Selling, General & Administrative	372,632	20,962	38,754	8,198	51,969	15,379	10,570	37,250	53,290	18,000	10,670	37,250	48,290	18,000
Other Expense	315,576	30,492	52,939	13,951	18,280	21,722	34,500	15,853	14,200	16,025	34,500	15,089	12,000	16,025
Capital Expenditures	54,839	19,712	5,522	0	0	29,605	0	0	0	0	0	0	0	0
Debt Service	145,250	0	42,668	948	4,800	0	42,668	427	5,322	0	42,668	427	5,322	0
Bond	47,523	0	0	0	0	0	0	0	0	15,841	0	0	0	15,841
Total Disbursements	10,912,856	1,038,131	507,960	250,294	289,693	1,091,712	289,693	334,761	534,234	875,912	567,269	563,366	739,962	912,112
Weekly Net Cash Flow from Operations	959,932	631,819	361,813	378,254	338,490	900,000	209,999	200,000	200,000	668,099	318,260	304,949	365,694	1,575,182
Other Cash														
Other Cash	357,500	0	0	0	0	0	0	0	0	56,000	5,500	56,000	0	56,000
Equipment Lease	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Weekly Net Cash Flow	1,347,393	631,819	361,813	378,254	338,490	900,000	209,999	200,000	200,000	724,099	323,760	360,949	365,694	1,631,182
Outstanding Checks	(1,092,682)													
A/P Checks to Cut	3048,428	(2,016,647)	(485,854)	(246,220)	(411,103)	(241,699)	(52,456)	202,426	0	0	0	0	0	0
LOC Compliance Calculation														
	Week Ending 5/9/2015													
Beginning AR	6,586,195	5,423,245	5,560,472	5,443,924	6,571,374	5,336,412	5,705,469	6,049,459	7,205,321	6,474,521	6,804,231	7,151,167	7,438,961	7,438,961
Sales	11,101,470	507,000	507,000	507,000	1,765,633	756,750	658,750	658,750	1,690,137	813,250	715,250	715,250	990,450	813,250
Collections	(11,922,748)	(1,669,950)	(369,773)	(62,548)	(538,183)	(1,991,712)	(289,693)	(334,761)	(534,234)	(1,544,051)	(385,529)	(368,315)	(705,656)	(2,487,294)
AR - Week Ending - 13 wk change (821,278)	6,586,195	5,423,245	5,560,472	5,443,924	6,571,374	5,336,412	5,705,469	6,049,459	7,205,321	6,474,521	6,804,231	7,151,167	7,438,961	5,754,917
Less: Ineligibles														
Past Due (over 90 days from invoice date)	1,126,730	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895
100.0% Excessive Delinquency	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unearned Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Contra Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Ineligibles	1,126,730	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895	1,126,895
Net Eligible Receivables	5,459,465	4,296,350	4,433,577	4,317,029	5,444,479	4,209,517	4,578,574	4,922,564	6,078,426	5,347,626	5,677,336	6,024,272	6,312,066	4,312,066
AR Availability (75.0% adv.) (Max 10,000,000)	4,094,599	3,222,262	3,325,183	3,237,777	4,083,359	3,157,136	3,434,219	3,691,618	4,558,569	4,010,719	4,258,001	4,517,606	4,735,359	3,235,299
Inventory														
Raw Material	1,070,561	1,070,561	1,070,561	1,070,561	1,070,561	1,070,561	1,070,561	1,070,561	1,070,561	1,070,561	1,070,561	1,070,561	1,070,561	1,070,561
WIP	1,908,885	1,908,885	1,908,885	1,908,885	1,908,885	1,908,885	1,908,885	1,908,885	1,908,885	1,908,885	1,908,885	1,908,885	1,908,885	1,908,885
Finished Goods	579,665	579,665	579,665	579,665	579,665	579,665	579,665	579,665	579,665	579,665	579,665	579,665	579,665	579,665
Total Eligible Inventory	3,559,111	3,559,111	3,559,111	3,559,111	3,559,111	3,559,111	3,559,111	3,559,111	3,559,111	3,559,111	3,559,111	3,559,111	3,559,111	3,559,111
Inventory Availability (50.0%) (Max 2,000,000)	1,802,334	1,802,334	1,802,334	1,802,334	1,802,334	1,802,334	1,802,334	1,802,334	1,802,334	1,802,334	1,802,334	1,802,334	1,802,334	1,802,334
Total Availability (Cap 4,000,000)	5,896,933	5,094,596	5,135,518	5,039,113	6,085,793	4,966,247	5,293,833	5,723,983	6,360,840	5,859,960	6,077,370	6,321,600	6,537,693	5,037,633
Line of Credit Balance & Availability														
Beginning LOC - Sweep of Receipts	3,181,484	2,994,067	3,283,297	3,740,482	3,623,720	2,253,624	2,766,417	3,490,174	3,455,602	3,311,597	3,442,361	3,995,985	3,821,694	3,821,694
Draw on LOC - C/S Checks	(1,669,950)	0	0	0	0	0	0	0	(1,669,950)	(391,019)	(424,315)	(705,656)	(2,543,294)	(2,543,294)
Draw on LOC - Curr. Week's Checks (90.0%)	1,092,682	0	0	0	0	0	0	0	57,429	0	0	0	0	0
Draw on LOC - Non-A/P and future A/P	186,851	0	0	0	0	0	0	0	0	0	0	0	0	0
Ending LOC - 13 wk change (797,622)	3,181,484	2,994,067	3,283,297	3,740,482	3,623,720	2,253,624	2,766,417	3,490,174	3,455,602	3,311,597	3,442,361	3,995,985	3,821,694	2,281,862
LOC Availability - Excess/(Deficit)	618,516	1,005,533	715,703	255,510	376,280	1,746,379	1,233,563	506,826	544,238	668,603	557,619	4,025	158,306	1,615,138
Available Collateral in excess of 4,000,000 cap	1,396,933	524,596	535,634	412,691	1,427,532	746,037	1,020,804	1,279,496	2,137,393	1,589,293	1,836,576	2,096,777	2,312,623	5,182,224

Forecasting – Model Components

Setup

- Configuration parameters
- Beginning balances
- Line of credit parameters
- Aging parameters

Receipts

- Current open accounts receivable
- Forecast of future receipts from sales and other income
- Sorting, filtering & reports for detail and collections

Disbursements

- Current open accounts payable
- Forecast of future disbursements
 - Repeating, intermittent, tied to sales
- Sorting, filtering & reports for aging, detail, distribution and cut-list

Checkbook

- Maintains checkbook and bank balances
- Outstanding checks
- Detail utilized for comparison and variance reporting; actual versus forecast

Forecasting – Model Components

Variance Reporting

	Forecast	Actual	Variance	Explanation of Variance
<u>Cash Receipts from:</u>				
Accounts Receivable	527,967	602,742	74,775	
Forecasted Sales - Division 1	73,324	0	(73,324)	
Forecasted Sales - Division 2	0	0	0	
Total Cash Receipts	601,291	602,742	1,451	
<u>Disbursements for:</u>				
Tooling - Material, Components & Subs	239,797	239,797	(0)	
Mfg - Material, Components & Subs	641,774	646,907	(5,133)	Adjusted %
Tooling - Outsourced Die Build	14,320	14,320	0	Adjusted %
Payroll, PR Taxes, Burden, & Benefits	26,751	45,998	(19,247)	401k is always running a week behind.
Maintenance & Repairs	7,796	7,796	(0)	
Supplies	38,520	38,520	(0)	
Freight	7,178	7,178	0	
Insurance	5,592	5,592	0	
Taxes	0	0	0	
Selling, General & Administrative	19,205	21,089	(1,884)	
Other Expense	55,966	54,712	1,254	
Capital Expenditures	54,372	73,832	(19,460)	Down payment on new equipment paid early
Debt Service	0	0	0	
Bond	15,841	15,841	0	
Total Disbursements	1,127,112	1,171,583	(44,471)	

Forecasting – Key Factors Affecting Implementation

- Complexity of business model
 - Ability to forecast revenue and related cost of sales
- Current business processes
 - Timely entry of transactions into financial system
 - Consistent A/R & A/P cut-off processes
 - Holding checks
 - Checkbook reconciliation with bank
- Availability and readiness of data
 - Format
 - Timely inputs and response to questions
- Quality and reliability of data
 - Limitations of financial system
- Client point person
 - Knowledge with all aspects of business
 - Capability with system