



Building Blocks

Construction Financial Management Association
Honolulu Chapter

Volume 15 • Issue 1
January 2008

CFMA's 2007 Construction Industry Survey Results

By Garrett J. Sullivan,
KAIKOR Construction and Past CFMA Hawaii Chapter President

For the nineteenth consecutive year the Construction Financial Management Association (CFMA) has completed its 2007 Annual Financial Survey, regarded by many as the financial benchmarking tool of the construction industry. Survey results were analyzed and compiled from the respondents of CFMA's 7,000 members in 90 chapters from across the country, including Hawaii. The annual survey results provide a summary of important issues and trends as well as financial information and comparative data over a five-year period and points out significant trends.

Here are some highlights from the survey:

The survey again featured the very popular section devoted to a Hot Topic challenging the industry. The construction industry has always dealt with labor fluctuations, but labor shortages and how to manage problem have forced many contractors to examine their labor practices. As such, CFMA has selected Field Personnel, Recruiting and Retention as the 2007 Hot Topic challenging the industry.

With most contractors experiencing labor shortages and almost all expecting to experience one in the future it is easy to see why it was selected. Currently 68% have expe-

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New Members

Frank R. Olinares BSBA
Hualalai Investors, LLC

Christopher Cheung
CC Engineering & Construction, Inc.

Ward Letvin CPA
Dorvin D. Leis Co., Inc.

Stacey Katakura
Forest City Enterprises, Inc.

Donald Alexander Morrison
Pacific AquaScapes, Inc.

Joseph J Boivin BS, MBA
Sea Engineering, Inc.

Paul Botts
Risk Solution Partners LLC

Brian Isobe CPA
Nishihama & Kishida, CPAs, Inc.

Robert Martinez
AIPA Properties, LLC

Patricia Ahn
Economy Plumbing & Sheet Metal

President's Message

By Carl Williams (Born in the Year of the Rat)

MY (CFMA) NEW YEAR'S RESOLUTIONS

Check out my resolutions for the members of CFMA – Honolulu for 2008, the **Year of the Rat**:

- **Sponsor a new member** interested in developing beneficial business relationships through the shared CFMA experience.
- **Meet a new member** at the Installation Banquet in April 2008 at the Oahu Country Club (time and date to be determined).
- **Blow your own horn** ... sponsor an advertisement or write an article for

Building Blocks, the official newsletter for our Honolulu Chapter.

- **Attend the CFMA Annual Conference** May 17 – 21, 2008 in Orlando, May 16 – 20, 2009 in Las Vegas, or May 15 – 19, 2010 at Waikoloa.

- **Become Hawaii's Newest CCIFP** and join local members Don Taylor of Unlimited Construction, our latest addition, Sandra Brewer, and Jay Miyaki in this notable achievement.
- **Have fun at a Site Visit, Seminar, Special Event, or Brown Bag.** Events occur monthly – they are fun and

free for members. Look for notices in your e-mail.

- **Tee off** in a good way at the CFMA – Honolulu Annual Golf Tournament in August each year.
- **Surf the Internet** and keep informed by visiting www.CFMA.org and www.CFMA.org/Hawaii
- Give back. Become a Chapter Board or Committee Member.

Your comments are most welcome ... contact me at Carl@CPAloha.com

Happy New Year!



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rienced a labor shortage and 98% expect to in the future. During the past year, 53% of contractors have lost field personnel to the competition. To thwart this loss, 80% of contractors in the survey have increased compensation and 54% have increased their training opportunities. Superintendents are the new “rock stars” of construction with 62% of contractors anticipating an increase in compensation to them. Most union respondents (67%) would like to see the unions provide more training. However, 89% are supplementing the training provided by unions. Going forward, most contractors (98%) see the issue as long term with only one third expecting it to end within the next five years.

Economy and Competition:

- A majority of survey participants (61%) expected their sales volume to increase over the next year. Another 26% expected volume to remain unchanged. Overall, a very substantial 23.2% growth volume was expected.
- Fifty-eight percent of the survey participants increased their backlog over the prior year. The average backlog increased from 7.8 months in 2005 to 8.4 in 2006. Competitive bid remains the most common way to acquire work and backlog at 56%.
- Overall, 21% of the contractors were entering new markets in 2007, primarily in the Southeast, Internationally, Mexico and Canada.

Top Five Challenges In The Next Five Years- Percent Selected within the Top Five:

Shortage of Trained Field Help	87%
Healthcare Insurance Costs	80%
Shortage of Trained Project Managers	73%
Price Escalations	67%
Sources of Future Work	59%

To improve profitability in 2007, most companies responded by stating, “Doing what we do, better” (75%). A majority also focus on the following strategies: safety & risk management (55%), and training (52%) to improve profitability.

Cash Management and Finance:

- Since last year’s survey, online banking has over taken zero balance /sweep account arrangements. More than half had no change in the availability of credit and 42% stated credit was better than in the previous year. Ninety four percent stated they have a working capital line of credit and it did not change during the past year.

Bonding and Sureties:

- Most contractors bond less than 40% of their work. Heavy Highway contractors of course bond more, with 80% of their category being bonded.
- Among those who bond subcontractors, most bond less than 20%.

Insurance:

- Fifty nine percent of the respondents reported increases in healthcare insurance, 29% experienced worker’s compensation insurance increases and 28% reported general liability insurance increases.
- Most companies took one or more actions to try to control insurance costs, and the most common were aggressive loss control (53%) and obtaining competitive bids (46%).
- On average, most companies pay \$5,000 per claim or less.
- Most companies have a workers compensation experience modifier within the range of .5 to .99.

Taxation:

- Over 90% of participants use the percentage of completion method of recognition of contract revenues and gross profit for tax reporting purposes.
- More than a third (35%) have never had an IRS examination, 27% had an examination within the last six years and the remainder has not had an examination in the last six years.
- Tax examinations generally resulted in either an immaterial change (44%) or no change (51%) in tax liability.

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CFMA My Space



Bob Creps

- Married to Debra (curriculum coordinator Kaneohe Elementary), sons Aaron (attorney with Reinwald, O'Connor), Ethan (third mate with Matson and lieutenant USCG reserve) and Benjamin (sophomore USC) with Deloitte 1983-1986, then Grace Pacific 1986 to present, first as Controller, then VP Finance, currently Sr VP Administration

Favorites

- Restaurant - Peppino's Italian Food (262-5833), Buzz's Lanikai (261-4661).
- Place to shop - Hardware Hawaii, Kailua.
- Beach - late afternoon Makapuu with 3 to 4 foot shorebreak and a light offshore breeze.
- Music - Fleetwood Mac, Rod Stewart.
- Website - National Weather Service Honolulu <http://www.prh.noaa.gov/hnl/>.

Did you know

- Fun fact - owned and operated The Fiberglass Shop in the 1970's, designing and building fiberglass outrigger canoes.
- Hidden talent - fixing sons' surfboards and canoes.
- Last big purchase - 2007 Porsche Cayman, December 2006, first "big" purchase since purchase of 27 foot sailboat in 1990.

Other

- Like most about job - it hasn't been a "job" for many years. It is a series of challenges, with the opportunity to work with some very capable people. The challenges today go well beyond Grace Pacific, and deal with how an island community sustains the ability to maintain its roads and highway infrastructure. This will involve increased collaboration between the agencies responsible for the condition of the infrastructure, the motoring public who experience the condition of the roadways and the inconvenience caused by its maintenance, the contractors and suppliers who are finding their materials to be more difficult to obtain and more expensive, and the legislative bodies who ultimately fund the process.
- Long-term challenge at present - extending the Use Permits for quarrying activities at Puu Makakilo for another 25 years.
- Biggest problem in my industry - Recognition by the public that to have a quality roadway infrastructure, you also need to have the facilities to produce the materials to maintain the infrastructure. There is no longer any room on Oahu for the "not in my backyard" attitude.
- Five-year vision in my industry - Hawaii being touted as a premier visitor destination because its roads are such a pleasure to drive on.
- Essential Business Philosophy from Dwayne Steele - business relationships must be of a win-win nature to be successful.
- Most important lesson learned - Accounting and Law are the language of business. A solid understanding of accounting and reporting is a must for business success.
- Favorite way to spend free time - watching sons' canoe races; sailing on the windward side.
- Where were you born and raised - born in Honolulu, raised in Kailua, attended public schools, then University of California for undergraduate and graduate degrees.

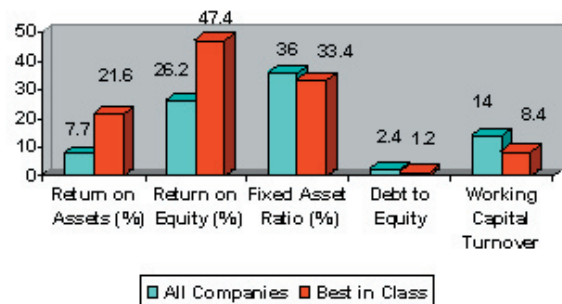
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Accounting Policies and Methods:

- Seventy Eight percent of the survey participants report their earnings on a calendar year basis and most companies (71%) recognize profits as soon as costs are charged to the job. Fixed priced contracts (60%) are the most common type of contract.
- A majority (96%) indicated that they recognize revenue for financial statements purposes using the percentages of completion method.

The CFMA Construction Industry Financial Survey recognizes the Best in Class contractors for their strong financial performance as the top 25% of their peer group. Best in Class status is based on four indicators of financial health: Return on Assets, Return on Equity, Fixed Asset Ratio, and Days in Accounts Receivable. The graph below contrasts these factors for the Best in Class contractors.

Best in Class Key Financial Characteristics



For a complete copy of the unedited 2007 Construction Industry Annual Financial Survey, Eighteenth Edition, please contact CFMA at 609.452.8000 or visit www.cfma.org/hawaii for more information. CFMA's 2007 Construction Industry Annual Financial Survey is a self-selected sample from approximately 4,100 CFMA general members employed by U.S. construction companies plus a small number of other U.S. contractors. The number and mix of respondents for each year's survey affect trends in the financial statement information. The information contained in this survey is not intended to be, nor does it provide, a statistically valid representation of the construction industry as a whole. © 2007 by the CONSTRUCTION FINANCIAL MANAGEMENT ASSOCIATION. All rights reserved. Reprinted with the permission of CFMA.



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Potential new recruits at end exsiting members pose for the camera.



Carl Williams and new member Joseph Boivin.



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Contact Jay Miyaki at jay@cpaloha.com if you have any comments.