

## Today's Labor Market The Search for Skilled Workers

**A** recurring topic of conversation at many construction trade association meetings these days is the shortage of skilled labor. Attracting and retaining experienced project managers and supervisors is always a challenge, but these days a shortage of skilled trades is also a concern.

The recent headlines on one national trade organization's website summed up the situation succinctly: "Construction Unemployment Falls to 14-Year Low" and "Data Point to Looming Worker Shortage."

Of course, a shortage of skilled workers is a predictable consequence of a recovering economy. Most contractors would agree this problem is certainly preferable to the opposite situation just a few years ago, when workers were plentiful but projects were scarce.

Nevertheless, today's relatively tight labor market can present challenges that can limit your ability to take advantage of growth opportunities. While there are no simple answers, many contractors are finding certain practices that are useful for coping with the shortage.

### An Uneven Shortage

Any search for solutions should begin with the recognition that today's labor market is not uniformly tight. There are significant regional variations in construction employment. What's more, various industry sectors and subsectors are also experiencing

significantly different growth rates.

Only a month before it reported on record high levels of construction industry employment, the same trade organization website featured this headline: "Construction Employment Declines in Half of the States as Congress Seeks New Way to Pay for Transportation Upgrades."



Researching and understanding these regional and sector variations can provide some insights into where skilled workers might be found. For example, just a few years ago the booming oil and natural gas industries were absorbing many workers from the construction trades. Today, as the oil and gas industries' growth rates are slowing, some contractors in other sectors and other regions are reaching out to lure workers back.

### Searching for Short-Term Solutions

Most contractors are familiar with local sources of interim workers to get them through a short-term labor shortage. While trade association bulletin boards generally focus on project managers and supervisory level personnel, some do list crafts and trades workers as well.

Temporary agencies that specialize in construction trades are another option. There can be significant costs associated with this approach, but the costs of missing a deadline due to a labor shortage could make this a practical alternative.

Perhaps the least desirable approach to a labor shortage is to simply outbid your competitors in an attempt to lure trained workers away from other jobs. But beyond the obvious cost disadvantage, this practice can cause a number of problems with your peers.

It also could be argued that this approach is most likely to attract workers who are less productive — and certainly less stable — than their more loyal coworkers. While desperate times sometimes call for desperate measures, other approaches will generally yield better results.

### Taking a Long-Term View

Many trade associations have long-standing programs designed to

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# VIE Rules Can Cause Confusion

**F**or most construction businesses, maintaining financial statements that comply with generally accepted accounting principles (GAAP) is a fundamental requirement of doing business. Lenders and sureties require contractors to submit financial statements that have been certified to be GAAP-compliant.

Until recently, however, a common business practice used by many privately owned construction companies could have made GAAP compliance more difficult. Recent changes to GAAP standards have eased the problem somewhat, but there is still a good deal of confusion.

### How VIEs Affect Financial Statements

The problem many contractors encountered revolved around variable interest entities (VIEs). These are certain types of thinly capitalized businesses that would be unable to operate without the support of another company.

For example, it is a common practice in the construction industry for the owners of a privately held construction business to set up a separate commercial real estate company. Typically, the real estate company would buy a commercial property and lease it back to the construction company as office or warehouse space. (Similar arrangements are sometimes made for the purposes of buying and leasing back equipment.)

In such instances, the commercial real estate company would likely be

considered a variable interest entity. Because both businesses share common ownership, and because the real estate company does not have sufficient capital to operate on its own, the construction company is considered to have a controlling financial interest in the real estate company.

When one business has a controlling interest in another, GAAP rules require that the controlling entity's financial statements must be consolidated to include the VIE. In our example, this means the construction company's balance sheet would have to reflect the assets and liabilities of the commercial real estate company as well. Obviously, this would have a significant impact on the construction company's balance sheet, which could seriously affect its ability to obtain financing or bonding.

### Rules for Private Company Leases

The VIE consolidation requirement was a source of contention for a number of years. The Financial Accounting Standards Board (FASB) received numerous comments from financial statement users who pointed out that the requirement was actually impeding their ability to evaluate a business accurately.

In the case of a construction company, for example, lenders and sureties are primarily interested in the cash flows and balance sheet of the construction business. The finances of the leasing company are not particularly relevant to their decisions regarding financing or bonding capacity. In effect, they argued, the VIE rules were obscuring the information they really needed — while also adding to the owners' GAAP compliance and reporting costs.

Responding to these concerns, FASB modified its rules in 2014 to make an exception for private company leases. The new rules provide that, under certain circumstances, a GAAP-compliant private company can now choose not to consolidate

the financial reporting from a VIE that leases property to it.

Key information about the leasing arrangement must still be disclosed, and other conditions must be met in order to apply the new reporting rules. But the elimination of the requirement for consolidated reporting can simplify the production of GAAP-compliant financial statements and provide users with more relevant information.

### The Bigger VIE Picture

It's important to recognize that the 2014 rules modification applies only to leasing arrangements between two privately held companies that share a common owner. There are many other types of VIE arrangements that still require consolidated reporting.

For example, if a construction company's owner also owns another company — even one that is completely unrelated to the construction industry — this ownership could be construed as a VIE that might be subject to consolidation into the construction company's financial reporting. Guaranteeing the debt of another company can also trigger VIE complications.

Even without such explicit contractual arrangements, a VIE situation could apply if there is only an implicit interest in the entity. For example, if the owner of a general contracting company establishes a separate subcontracting business that has no other source of business outside of the GC, the subcontractor would likely be considered a VIE. Therefore, its financial statements might need to be consolidated into the GC's reporting.

Sharing of employees, management fees, operating leases and other common practices can also trigger a VIE situation. Before entering into any such arrangement, check with your accountant to determine how the proposed action might affect your company's financial reporting, and thus impact its credit and bonding capacity. ■



# Are You Ready for the Paperless Jobsite?

**C**onstruction is, by its very nature, a “hands-on” business. Like all industries, though, construction has been drastically changed by information technology over the past few decades.

Most contractors recognize that their primary accounting systems must be capable of producing specialized, industry-specific reports and information that’s not available from standard “off the shelf” software. Outside of these core accounting functions, however, many contractors have been slower to adopt some of the newest construction-specific software that has been developed for use in the field.

Even large and sophisticated contractors can benefit from a regular review of their technological capabilities to be sure they are taking advantage of today’s best features. Two areas in particular merit special attention: employee time tracking technology and general project management software.

### Beyond Time and Attendance

Although many contractors still rely on manual, paper-based records to track employee time and attendance, recent years have seen growing acceptance of computer-based time sheet programs. Most automated time and attendance software programs link directly to the company’s payroll program or third-party payroll manager.

This has the obvious benefit of greatly reducing the opportunities for errors and the administrative expense of manually entering time card data. The advent of cloud-based programs streamlines the process even further, enabling workers to clock in on the jobsite by a wireless device.

Looking beyond basic time and attendance features, more advanced programs can also log workers’ time by project, task or subtask. This information can be aggregated over a number of projects to help fine tune

the company’s job costing and estimating processes and establish more accurate performance benchmarks.

### BIM and 5D Planning

Basic project management software has advanced dramatically over the years, moving far beyond rudimentary estimating and project scheduling programs. Today’s project management software typically integrates a variety of highly specialized modules.

These modules address the full range of general contractor and subcontractor processes — from bid management, job costing and scheduling to invoicing, change orders and job closeout.

The most sophisticated programs incorporate building information modeling (BIM) principles. BIM produces a digital representation of all the physical and functional characteristics of a facility throughout its life cycle.

BIM goes beyond two-dimensional drawings or three-dimensional models to incorporate a fourth dimension: time. Contractors can see not only how project systems and components will integrate physically, but also how the phases and activities of the building process will integrate over time. BIM also adds a fifth dimension, cost, so that all the decision-making information is incorporated into a single model.

When coupled with wireless technology, BIM can allow project managers to access every bit of information they need on a handheld device — without having to go back to the trailer to fetch paper plans. This means faster decision-making, better synchronization of work, and more timely approvals. All of this helps the project stay on track and within budget.

While BIM and wireless data access may not be practical on small, individual projects, they are widely becoming the standard for large-scale commercial and public works jobs. More and more contractors will

find that these capabilities are now expected of them — which is why a regular review of today’s available technology is so important. ■

*Staying abreast of technology is an ongoing challenge. Our firm can help you assess your needs.*



## Search for Skilled Workers

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encourage promising young workers to consider the possibility of a career in the construction trades. But individual companies can also take proactive steps to recruit future employees.

Larger companies may find it makes sense to develop their own internal training program once their workforce reaches sufficient size to make it cost-effective. It might also be practical to hire a full-time recruiter who’s responsible for anticipating future labor shortages and taking steps to prepare for them.

In addition to establishing formal apprenticeship programs, some contractors have had success partnering with local technical schools, community colleges and even high schools. Offering to pay for training is one way for even small to mid-sized contractors to demonstrate their commitment to offering promising careers. ■

*Do you have other questions about managing a construction business in today’s economy? Please give us a call to discuss them.*

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## Structuring Your Business: CFO, Controller or Both?

**A**fter weathering recession-driven cuts in administrative overhead, many construction businesses today are returning to a more growth-oriented posture. As they do, they often find that additional accounting and financial management resources are needed to reverse earlier cutbacks and manage new opportunities.

Beyond just adding resources, many construction company owners and executives are also pondering the best way to organize their growing financial operations. In particular, they are deciding how best to structure the company's two senior financial management positions: company controller and chief financial officer (CFO). Often, the distinction between the two is not well understood.

One reason for the confusion is that the duties of a CFO and controller are often blended. While very large contractors usually fill both positions, in small or mid-sized firms the same individual may have to wear both hats.

Here's one simple way to distinguish between the two positions: The controller is responsible for accurately reporting what has happened, while the CFO is responsible for looking ahead.

More specifically, the controller's responsibilities focus on accounting and record-keeping. This includes ensuring the accuracy of all financial records and the timely delivery of financial statements. Controllers are usually responsible for tax reporting

and compliance and working with the CPA and auditors. They may also be responsible for managing information technology, insurance and other financial activities.

The CFO, on the other hand, takes the numbers presented by the controller and puts them to work. He or she interprets the financial results and determines courses of action going forward. The CFO is involved in budgeting, forecasting, maintaining relationships with banks and bonding companies, setting policies and procedures, and interacting with senior management.

Properly distinguishing between these two critical functions is important — even if the same person fills both posts. ■



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