

MANAGING CASH FLOW

Managing cash flow is critical to any business' success, but perhaps most critical to construction contractors. Not only does it ensure the day-to-day operations of your business, but cash management is an important factor considered by sureties, bonding companies, and banks.

Following are some sources of cash receipts and disbursements and tips for most effectively your company's cash flows.

SOURCES OF CASH – BILLINGS AND RECEIPTS

The most obvious and best source for cash comes from the profitable jobs performed by the business. Some tips to consider when billing and collecting receipts from jobs:

- Retentions – can you negotiate a lower percentage for retainage? Can retention percentage be reduced to 5% after a job is 50% or 75% complete?
- Offer discounts for early payments.
- Monitor billings that can be sent at stages of completion to ensure they are billed as soon as that stage is complete.
- Be familiar with owner's payment process and bill accordingly. If you know an owner pays every other Thursday, make sure you have sent the bill in time to be paid by the next payment date.
- Handle punch list items efficiently and expeditiously to ensure prompt payment of retentions.
- Change orders – try to have signed and approved before performing work. Not doing so may result in disputes and delaying of payment.
- Materials - can you negotiate in the contract to bill for materials purchased and stored prior to installation?
- Aggressively manage cash collections – pay attention to what customers are slow-payers and consider that when laying out your future cash needs. Assign someone to review the company's accounts receivable aging and follow up on any payments that should have been received.

SOURCES OF CASH – OWNERS

A common source of cash is from owners – either in the form of equity contributions or loans to the company. While both meet the need for immediate cash, equity contributions are looked more favorably upon by both bonding companies and lending institutions.



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SOURCES OF CASH – OUTSIDE FINANCING

- Having a line of credit may be necessary to manage the inevitable peaks and valleys of the construction industry.
 - Evaluating leasing vs. buying equipment is another factor to consider.
- When getting cash from outside financing, the terms are established by that outside source (i.e. the bank) and as such, are the least favorable source of cash.

CASH DISBURSEMENTS

Managing cash disbursements is equally as important as managing cash receipts. In cash collections, the goal is to collect the cash as early as possible. In cash disbursements, the goal is to hold onto the cash as long as you can.

- Retentions payable to subcontractors should be on the same terms as your contract with the owner of the project to ensure you're not paying before you receive payment yourself.
 - Procedures should be set-up to take advantage of any discounts offered by vendors for early payment. Conversely, if no discount is offered, payment should not be made too soon before the due date.
 - Monitor inventory closely to minimize excess amounts on hand. Spending money on something that will sit idly for a length of time is not an effective use of cash.
- Because of liquidity concerns, long-term investments are not always the best option for construction companies, unless you have substantial cash already on hand. Depending on the interest rates, sometimes it may make more sense to pay down debt and reduce interest expense.

Good cash management is not just having a strong cash balance at the end of the year, but a constant process in managing a company's cash receipts and disbursements to make even the most profitable companies even more successful.

About Bergan Paulsen

At Bergan Paulsen, our mission is to provide timely, quality services that exceed the expectations of our clients. We know that in construction it is as important to be aware of changes in the tax laws as it is changes in the weather.

If you would like more information about this topic, please contact your nearest Bergan Paulsen office:

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