The operation of a small to medium sized electrical contracting business requires not only good labor, material and equipment, but, most importantly, good management.

None of us are experts in all phases of the electrical construction business, it therefore becomes necessary to seek expert advice from outside our organizations.

The financial and insurance fields are two major areas where expert assistance can be obtained. It is within these areas that this paper will attempt to share some ideas that have proven to be successful.

FINANCIAL

The most helpful assistance can be obtained through NECA Management Services and related workshops. In addition, obtaining the services of a qualified Certified Public Accountant, experienced in the construction field, is extremely important.

The key, of course, is putting into practice what you have learned from these experts.

Perhaps the most important information an electrical contractor needs is to know where he stands financially on all his jobs, and where he stands in his long range plan.

A means of measurement must be the most important criteria of any reporting within a company. It may be best expressed by "GOALS vs ACTUAL".

Some management tools to help a contractor to know where he stands are:

1. DAILY CASH REPORT
This is a simple daily report which the manager of a company should have on his desk each morning. It tells how much cash is in the bank, by each account, as of the close of business the previous day. In addition, it tells: Cash received today (by customer); Cash paid today (to whom); Accounts Receivable balance (additions & paid); Accounts Payable (additions & paid); Notes Payable (additions & paid).

2. WEEKLY LABOR REPORT
This report has long been in use by many NECA electrical contractors. It is one that is stressed by NECA Management Services. It can be revised to meet the needs of any job, as well as a recap for all jobs in progress. It reports labor hours and dollars spent vs estimated, including approved changes.
3. MONTHLY PROFITABILITY REPORT
Again, another NECA report that can be revised to meet an individual contractor's needs. This will show, by job, the costs to date vs estimated dollars, including approved change orders. This report can be detailed to include as many categories as you may wish to track. Perhaps the most common are: Manhours, labor dollars, material, payroll taxes and insurance, other direct job expense, subcontracts, total prime cost, gross profit and sales. Careful use of this report, making sure any outstanding vendors invoices and labor costs are recorded to coincide with the accrued costs used in the preparation of the sales to date, will give you an accurate status of jobs. This report reflects totals for current year, prior years, total to date, as well as original estimate and approved changes. This report can be summarized by department or division and will reflect that department's overall performance.

4. ACCOUNTS RECEIVABLE AGING REPORT
Another product of NECA and when used regularly, can be a great help for cash flow management.

5. FINANCIAL STATUS OF CONTRACTS
This is a report that many bonding companies require quarterly. It separates the contracts in progress and the contracts completed since the last report. The report shows: Contract price, original estimate of gross profit, total amount billed to date, total costs incurred to date, billings in excess of costs, costs in excess of billings, estimated cost to complete remaining work, and revised estimate of gross profit. This report makes the contractor establish realistic costs to complete a job. It is an excellent tool for short range planning.

6. MONTHLY BALANCE SHEET AND PROFIT AND LOSS STATEMENTS
These reports are easily obtained and should be prepared in a timely manner to give management the current financial status of the company. Only if labor and expenses, not reflected on the books, are accrued will these reports be of the greatest value.

Outside assistance is readily available to help a contractor to better manage his business. In addition to a CPA, mentioned earlier, an insurance agent, a banker, a financial planner and an attorney can be most valuable to a contractor.

A reliable insurance agency, with expert knowledge in construction, can be of great assistance to you in obtaining coverage for you in all areas and at competitive prices. A good agent will have several insurance companies that he can solicit for the most competitive prices for you and, at the same time, research such insurance companies as to their financial reliability as well as service to their clients.

Keeping in touch with your banker, when you don't need money, is perhaps more important than being in touch only when you need to borrow. Keeping the banker informed by adding him to
the list of people who need to know of your financial condition on a steady and continuous basis. This means furnishing him with financial statements, work in progress reports, financial status of contracts, and accounts receivable aging reports. The banker needs all the information he can get to get your line of credit established and to continue and increase your line of credit when needed.

We as contractors and particularly those of us who are contributing to NECA/IBEW Pension Programs know the amount of dollars we contribute annually. These programs take care of the field personnel, however, contractors need to set some goals to guarantee they and their staff will also be financially independent. The best way to insure such a goal is through the assistance of a Financial Planner or some other person who is an expert in setting up in-house pension, money purchase and profit sharing trusts.

The advantage of such plans is the steady annual contribution of before tax dollars. Taxes are deferred until the benefits are withdrawn by the participants. Such withdrawal, under present regulations, is mandatory at age 70 1/2.

In addition, it is well to cover certain key employees with life insurance. Consideration should be given to have the company (corporation) be the owner and beneficiary of such insurance. Real estate is another area a contractor can consider as a means of continuing personal income.

Attorneys knowledgeable in construction law can keep electrical contractors out of trouble, if we use them. Too often, it is only when we get in trouble do we seek their advice.

Bonding companies often know more about you, your company and your family than you do, or more than you would like them to know. It is important that an electrical contractor continuously update the bonding company with accurate and up-to-date information. It is well to check with the bonding company well in advance to bidding any major projects. Unfortunately poor experience, lately, of electrical contractors have made surety companies cautious.

Suppliers. Electrical contractors need them as much as they need the contractor. Treating them fairly and paying promptly can insure a good working relationship. Most of us can not do a sufficient amount of business with every supplier willing to call on us. Being selective and maintaining a limit on the number of suppliers will be beneficial to the contractor and the supplier.

Inventory control is perhaps a problem that most of us have, but won't admit. The theory of "don't throw it away, we may use it" can fill up a new warehouse every 5 years. Learn to be
tough, making sure surplus materials are returned to the supplier rather than storing them in an overcrowded warehouse. Exercise the slogan "suppliers keep your contractors out of the supply business". The fact that it's paid for doesn't mean it will make any money while it is in the warehouse.

INSURANCE

An annual review of coverage is a good practice. This should be done with an insurance agent who is knowledgeable in all facets of contractor's liabilities. Through his efforts, and the use of research with many companies he has access to, he can develop a check list. This check list, if used, can make sure you, the insured, are covered for all possible exposures your business may incur.

It is important you have an agent that is working for you and will present to you the best rates that he has obtained for your type of operation. Your agent should also perform a credit check on the insurance companies he is recommending to you.

Coverages to consider:

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<td>Property Coverage</td>
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Insurance coverage is very costly today, and a good manager must take the time to familiarize himself with the coverage he is buying. It is important, when bidding a project, to determine the coverage that is required by the contract documents. Today, electrical contractors find we are required to list more and more "additional insured". Prime contractors, faced with the same dilemma as electrical contractors of excessive liability claims, are trying to protect themselves by requiring their subcontractors to pick up more possible claims. Be aware of insurance certificates required by general contractors forms, it can cost you additional money, not covered in your estimate.

Self Insured Retentions and deductible clauses can reduce your insurance costs, however the added out of pocket cost should be weighed when determining the dollar value of a deductible clause. Past experience on claims is a good measurement in determining the amount of a deductible clause.

Key Man Insurance, Disability Insurance and Life Insurance are all important and coverage should be considered for the contractor and his staff. Funding for a Buy and Sell Agreement is often provided by insurance. Again, knowing the capabilities of your insurance agent or financial planner is a necessity.

Worker's Compensation Insurance may differ from state to state, knowing the limits of your
coverage is important. Certain carriers provide an array of services, including jobsite inspection, safety tips, booklets for distribution to field personnel, assistance in conducting safety meetings and regular reports showing claims paid and claims outstanding. Although dividends are not guaranteed, a good insurance carrier, coupled with a good safety record does pay dividends, as well as gives you an up front experience rating that saves you money. It is most important that electrical contractors keep abreast of state laws and proposed laws that affect Worker's Compensation Insurance coverage. The best way to do this is to keep in touch with your local Chapter's State Legislative Advocate.

Lastly, on the subject of insurance, it is well to use the leverage you have with your insurance agent to improve your bonding service. There is a very close relationship between bonding needs and insurance needs, using the same agency to service you is most beneficial.

Top management's responsibility is to keep the company financially stable, daily, by excellent in-house control of expenditures of time, material and equipment. Equal in responsibility is the close controls of timely receipts and investments.

James E. Henehan
President
PAIGE ELECTRIC COMPANY