

# Attaining Healthy Profit Margins: A Roadmap to Success

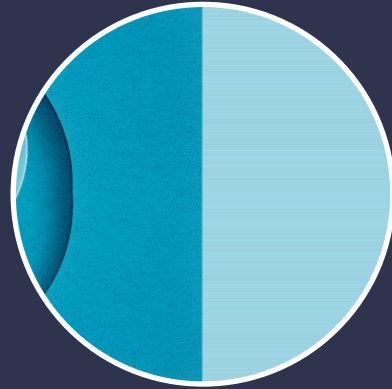
2024 ICAA Convention & Trade Show

September 27, 2024

# Who are we?

Shawn Erickson, CCIFP, CPA  
Chief Financial Officer  
C.J. Erickson Plumbing Co.

Mike Stephens, CPA  
Principal  
CLA (CliftonLarsonAllen LLP)



How do I evaluate my company and areas for improvement?



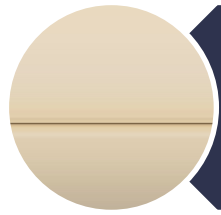
# The 5<sup>th</sup> Wave

By Rich Tennant



"I don't like the numbers on this report. Send it down to Marketing and see what they can do with it."

# Components of the Financial Statements



Independent Accountants' Report



Financial Statements



Notes to Financial Statements



Supplementary Information

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors  
Insulation Contractor, Inc.  
Chicago, Illinois

We have reviewed the accompanying financial statements of Insulation Contractor, Inc. (the Company), which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud, or error.

### ***Accountants' Responsibility***

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

**INSULATION CONTRACTOR, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2024 AND 2023**  
**(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

<b>ASSETS</b>	<u>2024</u>	<u>2023</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 423,981	\$ 278,852
Investments	161,987	158,831
Contracts Receivable	123,551	74,313
Contract Assets	18,639	21,603
Inventory	32,965	27,578
Prepaid Expenses	5,411	651
Total Current Assets	<u>766,534</u>	<u>561,828</u>
<b>PROPERTY AND EQUIPMENT</b>		
Office Furniture and Equipment	156,637	154,692
Autos and Trucks	354,789	364,039
Leasehold Improvements	258,474	256,144
Total	<u>769,900</u>	<u>774,875</u>
Less: Accumulated Depreciation and Amortization	<u>(398,313)</u>	<u>(344,208)</u>
Net Property and Equipment	<u>371,587</u>	<u>430,667</u>
Total Assets	<u>\$ 1,138,121</u>	<u>\$ 992,495</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 91,905	\$ 67,115
Contract Liabilities	35,513	27,231
Current Portion of Note Payable	25,000	-
Accrued Expenses:		
Pension and Profit Sharing Plans	41,000	111,400
Payroll and Bonus	5,354	1,667
Union Benefits	15,997	41,032
Real Estate Taxes	25,500	23,850
Total Current Liabilities	<u>240,269</u>	<u>272,295</u>
<b>LONG-TERM LIABILITIES</b>		
Note Payable, Net of Current Portion Above	<u>75,000</u>	<u>-</u>
Total Liabilities	315,269	272,295
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock	1,000	1,000
Retained Earnings	<u>821,852</u>	<u>719,200</u>
Total Stockholders' Equity	<u>822,852</u>	<u>720,200</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,138,121</u>	<u>\$ 992,495</u>

**INSULATION CONTRACTOR, INC.**  
**STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2024 AND 2023**  
**(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

	2024		2023	
	Amount	Percent	Amount	Percent
<b>CONTRACT REVENUES</b>	\$ 2,669,102	100.0 %	\$ 2,600,641	100.0 %
<b>CONTRACT COSTS</b>				
Materials and Subcontracts	945,155	35.4	922,111	35.5
Direct Labor	810,731	30.4	850,001	32.7
Trucks, Tools, and Equipment	106,328	4.0	100,931	3.9
Contract Overhead	183,463	6.9	230,491	8.9
Total Contract Costs	<u>2,045,677</u>	76.7	<u>2,103,534</u>	81.0
<b>GROSS PROFIT</b>	623,425	23.3	497,107	19.0
<b>OPERATING EXPENSES</b>	<u>386,805</u>	14.5	<u>399,809</u>	15.4
<b>INCOME FROM OPERATIONS</b>	236,620	8.8	97,298	3.6
<b>OTHER INCOME AND EXPENSE</b>				
Investment Income, Net	5,211	0.2	2,728	0.1
Other Income	850	-	700	-
Total Other Income	<u>6,061</u>	0.2	<u>3,428</u>	0.1
<b>NET INCOME</b>	<u>\$ 242,681</u>	9.0	<u>\$ 100,726</u>	3.7



**INSULATION CONTRACTOR, INC.  
STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2024 AND 2023  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

	Common Stock	Retained Earnings	Total Stockholders' Equity
<b>BALANCE - January 1, 2023</b>	\$ 1,000	\$ 668,474	\$ 669,474
Net Income	-	100,726	100,726
Distributions	-	(50,000)	(50,000)
<b>BALANCE - December 31, 2023</b>	1,000	719,200	720,200
Net Income	-	242,681	242,681
Distributions	-	(140,029)	(140,029)
<b>BALANCE - December 31, 2024</b>	<u>\$ 1,000</u>	<u>\$ 821,852</u>	<u>\$ 822,852</u>

**INSULATION CONTRACTOR, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2024 AND 2023**  
**(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$ 242,681	\$ 100,726
Adjustments to Reconcile Net Income (Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Unrealized (Gain) Loss on Investments	(1,656)	1,626
Depreciation and Amortization	97,339	95,398
Gain on Sale of Equipment	(14,708)	(10,000)
Effects of Changes in Operating Assets and Liabilities:		
Contracts Receivable	(49,238)	31,908
Contract Assets	2,964	39,900
Prepaid Expenses	(4,760)	10,563
Accounts Payable	24,790	(14,551)
Contract Liabilities	8,282	(8,832)
Inventory	(5,387)	(98,585)
Accrued Expenses	(90,098)	(62,068)
Net Cash Provided by Operating Activities	210,209	86,085
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Equipment	(24,551)	(63,387)
Proceeds from Sale of Equipment	1,000	-
Proceeds from Sale (Purchase) of Investments, Net	(1,500)	18,052
Net Cash Used by Investing Activities	(25,051)	(45,335)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Distributions	(140,029)	(50,000)
Proceeds from Long-Term Debt	100,000	-
Net Cash Used by Financing Activities	(40,029)	(50,000)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	145,129	40,750
Cash and Cash Equivalents - Beginning of Year	278,852	238,102
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 423,981	\$ 278,852

**INSULATION CONTRACTOR, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2024 AND 2023**  
**(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

Insulation Contractor, Inc. (the Company) is an insulation contractor serving customers in the commercial and residential industries under fixed-price and time and material contracts in the greater Chicagoland metropolitan area. The lengths of the contracts vary, but are typically less than one year.

Significant accounting policies followed by the Company are presented below.

**Use of Estimates and Assumptions**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Operating Cycle**

The Company's "operating cycle" is the length of each individual contract. Therefore, assets and liabilities related to contracts are reflected as current items on the balance sheets. All noncontract items are reflected as current, based on a 12-month operating cycle.

**Revenue and Cost Recognition**

The Company recognizes construction contract revenue over time, as performance obligations are satisfied, due to the continuous transfer of control to the customer. Construction contracts are generally accounted for as a single performance obligation. Revenue is recognized using the percentage-of-completion method, based primarily on contract cost incurred to date compared to total estimated contract cost for each performance obligation. Management believes that the percentage-of-completion method is the most accurate measurement of progress to date on its performance obligations. Contract revenue earned for each performance obligation is calculated as the amount of contract costs incurred plus the amount of gross profit recognized times the percentage-of-completion.

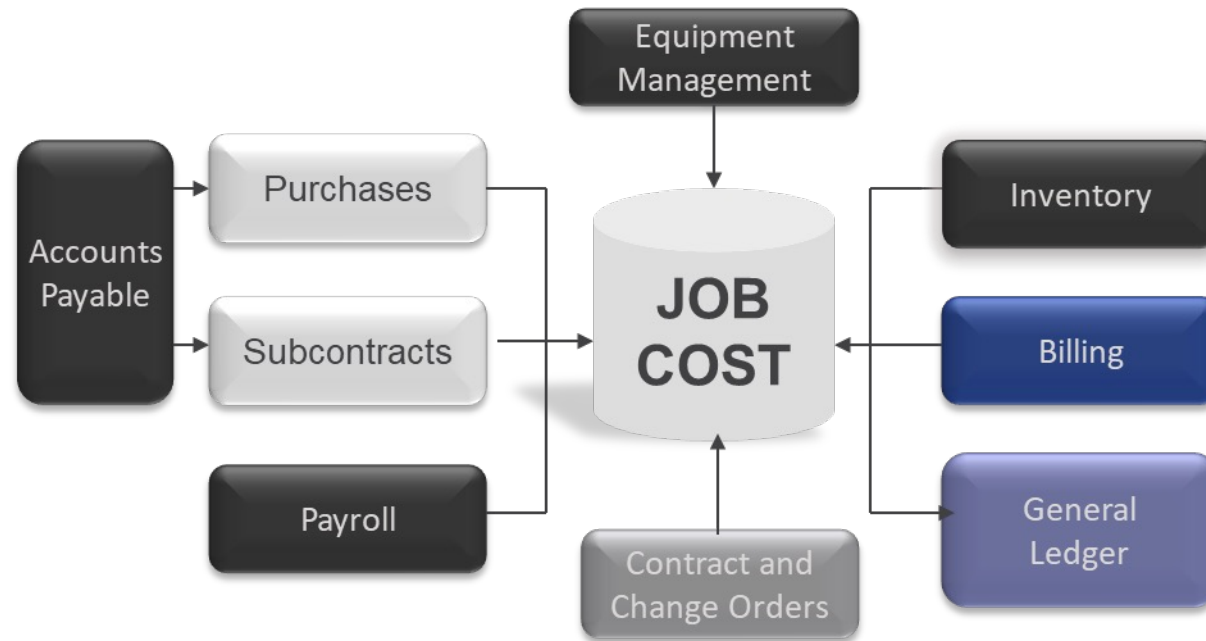
Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as payroll taxes, union fringes, insurance, and other miscellaneous costs. Operating and general costs are charged to expense as incurred. Changes to total estimated contract cost or losses, if any, are recognized in the period in which they are determined as assessed at the contract level. Pre-contract costs are expensed

customer.

**INSULATION CONTRACTOR, INC.**  
**SCHEDULES OF CONTRACT OVERHEAD AND GENERAL OPERATING EXPENSES**  
**YEARS ENDED DECEMBER 31, 2024 AND 2023**  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	2024	2023
<b>CONTRACT OVERHEAD EXPENSES</b>		
Insurance:		
General	\$ 33,576	\$ 45,170
Bonds	17,139	3,516
Licenses and Permits	763	435
Payroll Taxes	81,896	129,567
Supplies and Other Expenses	10,554	13,292
Union Welfare Plans	39,535	38,511
	\$ 183,463	\$ 230,491
<b>GENERAL OPERATING EXPENSES</b>		
Salaries	\$ 127,522	\$ 145,887
Bonuses	38,001	23,013
401(k) Match and Profit Sharing Contribution	8,966	8,511
Amortization of Leasehold Improvements	18,754	13,780
Building Maintenance	10,979	10,750
Gain on Sale of Equipment	(14,708)	(10,000)
Group Insurance	9,979	10,951
Miscellaneous	997	1,017
Office Supplies and Expense	30,370	28,054
Professional Fees	24,228	17,211
Real Estate Taxes	42,306	48,366
Rent	54,000	60,000
Telephone	12,525	11,489
Travel and Entertainment	12,013	19,289
Charitable Contributions	-	1,250
Utilities	10,873	10,241
	\$ 386,805	\$ 399,809
<b>Total General Operating Expenses</b>	<b>\$ 386,805</b>	<b>\$ 399,809</b>

# The Job Cost System - “Devil’s in the details”

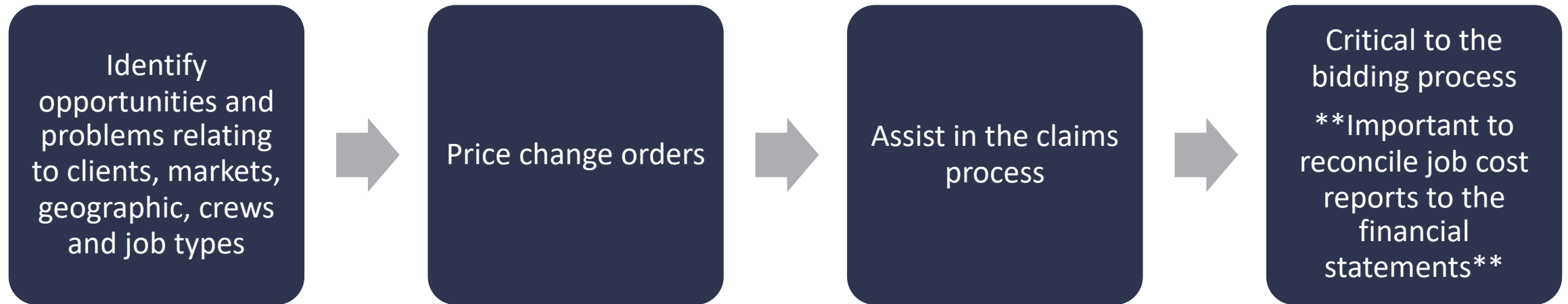


# A Good Job Cost System



# Why Does it Matter?

## Having a Good Job Cost System Will Help:



Ultimately, a job cost systems helps you make decisions for the future and identify problems before they occur!



Evaluate and compare my company...  
Key Financial Ratios





# Traditional Ratio Types

Profitability Ratios

Operational Ratios

Debt Analysis

Credit Analysis

### Graph 1 - Current Ratio

	<u>2024</u>	<u>2023</u>
Insulation Contractor	3.19	2.06
Budget	1.10	1.10

Measures the company's ability to pay short-term obligations.  
A higher ratio is more favorable.

$$\text{Current asset/current liabilities} = \text{current ratio}$$

### Graph 2 - Working Capital Turnover

	<u>2024</u>	<u>2023</u>
Insulation Contractor	5.07	8.98
Budget	7.50	7.50

The sales generated from operations in relation to the money used to fund the operations.  
A higher number generally means the company utilizes working capital efficiently, a lower number can indicate too much working capital or inefficient operations.

$$\text{Contract revenues} / (\text{current assets} - \text{current liabilities}) = \text{working capital TO}$$

### Graph 3 - Days Accounts Receivable Outstanding

	<u>2024</u>	<u>2023</u>
Insulation Contractor	16.66	10.29
Budget	25.00	25.00

The average number of days that a company takes to collect revenue after a sale.  
A lower number is more favorable and indicates fast collections.

$$\text{Contract receivables} / \text{contract revenues} \times 360 = \text{days AR outstanding}$$

#### Graph 4 - Days Accounts Payable Outstanding

	<u>2024</u>	<u>2023</u>
Insulation Contractor	16.17	11.49
Budget	30.00	30.00

The average number of days that a company takes to pay vendors working on projects.

A lower number is more favorable and indicates fast collections.

*Contracts payable / contract costs x 360 = days AP outstanding*

#### Graph 5 - Return on Equity

	<u>2024</u>	<u>2023</u>
Insulation Contractor	29.49%	13.99%
Budget	20.00%	20.00%

Measures how much profit a company generates with the money stockholders have invested.

*Net income / total equity = return on equity*

#### Graph 6 - Gross Profit Margin

	<u>2024</u>	<u>2023</u>
Insulation Contractor	23.36%	19.11%
Budget	25.00%	25.00%

Measures the company's job profitability. Contract costs include direct and indirect expenses.

*Gross profit / contract revenues = gross profit margin*

### Graph 7 - Operating Expenses to Revenues

	<u>2024</u>	<u>2023</u>
Insulation Contractor	14.49%	15.37%
Budget	18.00%	18.00%

Measurers operating expenses (overhead) as against revenues earned from the overhead.

*Operating expenses / contract revenues = OE to contract revenue ratio*

### Graph 8 - Net Income to Contract Revenues

	<u>2024</u>	<u>2023</u>
Insulation Contractor	9.09%	3.87%
Budget	10.00%	10.00%

Considers both contract and other overhead costs in measuring the company's overall profitability

*Net income / contract revenues = NI to contract revenue ratio*

### Graph 9 - Interest Bearing Debt to Equity Ratio

	<u>2024</u>	<u>2023</u>
Insulation Contractor	0.12	0.00
Budget	0.10	0.00

Measures the leverage used by the company.

*Interest bearing debt / total equity = debt to equity ratio*

### Graph 10 - Days in Cash

	<u>2024</u>	<u>2023</u>
Insulation Contractor	62.75	40.10
Budget	60.00	60.00

Measures the amount of days of cash with current operations held by the company.

*Cash / (expenses / 360) = days in cash*

# Not Just the Financial Statements!

Benchmarking

Dashboard  
and KPI's

Budgeting

Actual vs Goals  
vs Forecast  
Analysis

AI

Peers

# Other Resources? Us!

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