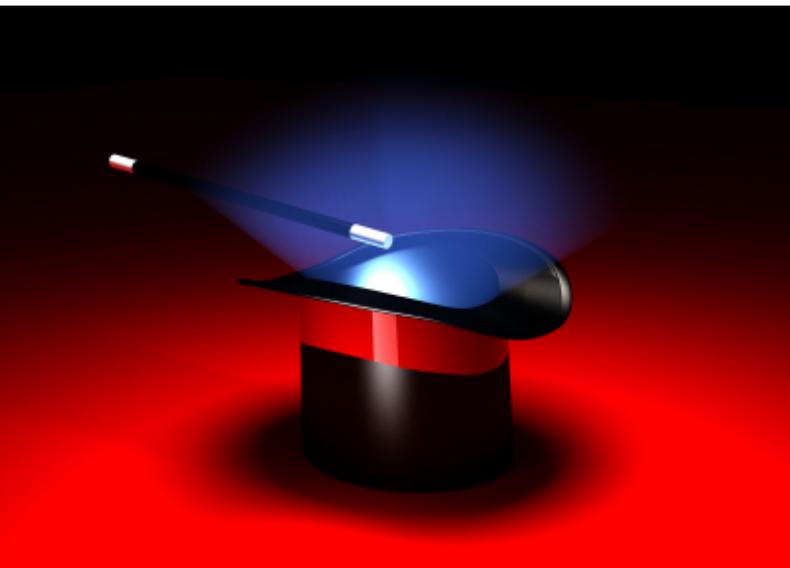


The Magic of the Numbers

Presented by:
Emma S. Shinn, CPA, MBA

January 22, 2009
1:15 – 2:45 PM



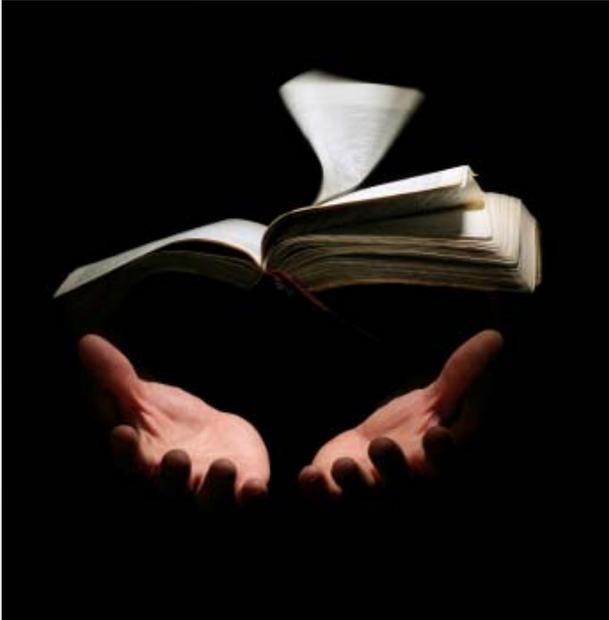
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www.builderpartnerships.com

Purpose of Accounting

- Many look at it as a necessary evil
- Largest single source of data in the company
- Measures all financial activities
- Use to prepare tax returns
- Keeps the score card



Financial Statements



- Guide management in the decision making process
- Source for preparing Financial Statements
 - Income Statement (Profit and Loss)
 - Balance Sheet
 - Cash Flow

Other Reports



- Gross Profit
- Cost reports
- Variance reports
- Key measurement
 - Performance indicators

External Users



- Financial
 - Lenders
 - Investors
 - Government agencies

Internal Users

- Managerial
 - Owners
 - Top managers
 - Operating managers
- Responsibility to understand financial information
- Call to ACTION



Structure

- Profit centers
- Chart of Accounts
- NAHB Chart of Accounts
 - 1000 Assets
 - 2000 Liabilities and Owners' Equity
 - 3000 Sales and Cost of Sales
 - 4000 Indirect Construction Costs
 - 5000 Financing Expenses
 - 6000 Sales and Marketing Expenses
 - 8000 General and Administrative expenses



Reports – “The Story”



- Reports need to be:
 - Accurate
 - Timely
 - Standardized
 - Comparable
 - Month to month
 - Year to year
 - Actual to budget
 - Actual ratios to targets
 - Actual to Industry

Cost of Doing Business Study

- Follows the NAHB Chart of Accounts
- The only source for industry wide results
- Provides the typical cost structure of the industry
- Provides a benchmark to compare **YOUR** numbers with the industry



Cost of Doing Business Study

- Provides guidelines to set budgets and targets
- Facilitates evaluation of functional areas against industry performance
- Can be used as a selling point to lenders
- Can be used as a motivational tool
- Can be used to establish a reward system
- Can be used as a resource document for internal revenue audits

Use Charts

- Visual representation of reports
- Easy to understand
- Easy to motivate
- Be selective



Types of Reports



- The Income Statement
- Gross Profit Analysis
 - Compare to each unit
 - Compare plan gross profit to actual gross profit
 - Compare gross profit by communities
 - Compare month to month
- The Balance Sheet

ABZ Homes

Income Statement

Year ended December 31, 2008

Sales	\$ 5,345,500
Cost of Sales	4,810,950
Gross Profit	\$ 534,550
Expenses:	
Advertising	53,450
Auto expenses	12,450
Contributions	2,000
Depreciation	8,200
Insurance	12,750
Maintenance and repairs	5,425
Rent	21,600
Office supplies	7,850
Salaries	195,365
Small tools	4,890
Telephone	7,830
Miscellaneous	15,647
Total Expenses	\$ 347,457
Net Income	\$187,093



ABZ Homes

Income Statement

Year ended December 31, 2008

Sales		\$5,345,500
Cost of Sales:		
Land (lots)	\$962,190	
Direct Construction Costs	3,207,300	
Total Cost of Sales		4,169,490
Gross Profit		\$1,176,010
Operating Expenses:		
Indirect Construction Costs	\$203,129	
Financing expenses	187,092	
Sales and Marketing expenses	347,458	
General and Administrative	251,238	
Total Operating expenses		988,917
Net Income		\$187,093



ABZ Homes

Income Statement

Year ended December 31, 2008

	Actual	Budget	Variance
Sales	\$5,345,500	\$5,500,000	-\$154,500
Cost of Sales:			
Land (lots)	962,190	935,000	\$27,190
Direct Construction Costs	3,207,300	3,190,000	\$17,300
Total Cost of Sales	4,169,490	4,125,000	\$44,490
Gross Profit	\$1,176,010	\$1,375,000	-\$198,990
Operating Expenses:			
Indirect Construction Costs	\$203,129	200,000	\$3,129
Financing expenses	187,092	165,000	\$22,092
Sales and Marketing expenses	347,458	341,000	\$6,458
General and Administrative	251,238	264,000	-\$12,762
Total Operating expenses	988,917	970,000	\$18,917
Net Income	187,093	\$405,000	-\$217,907



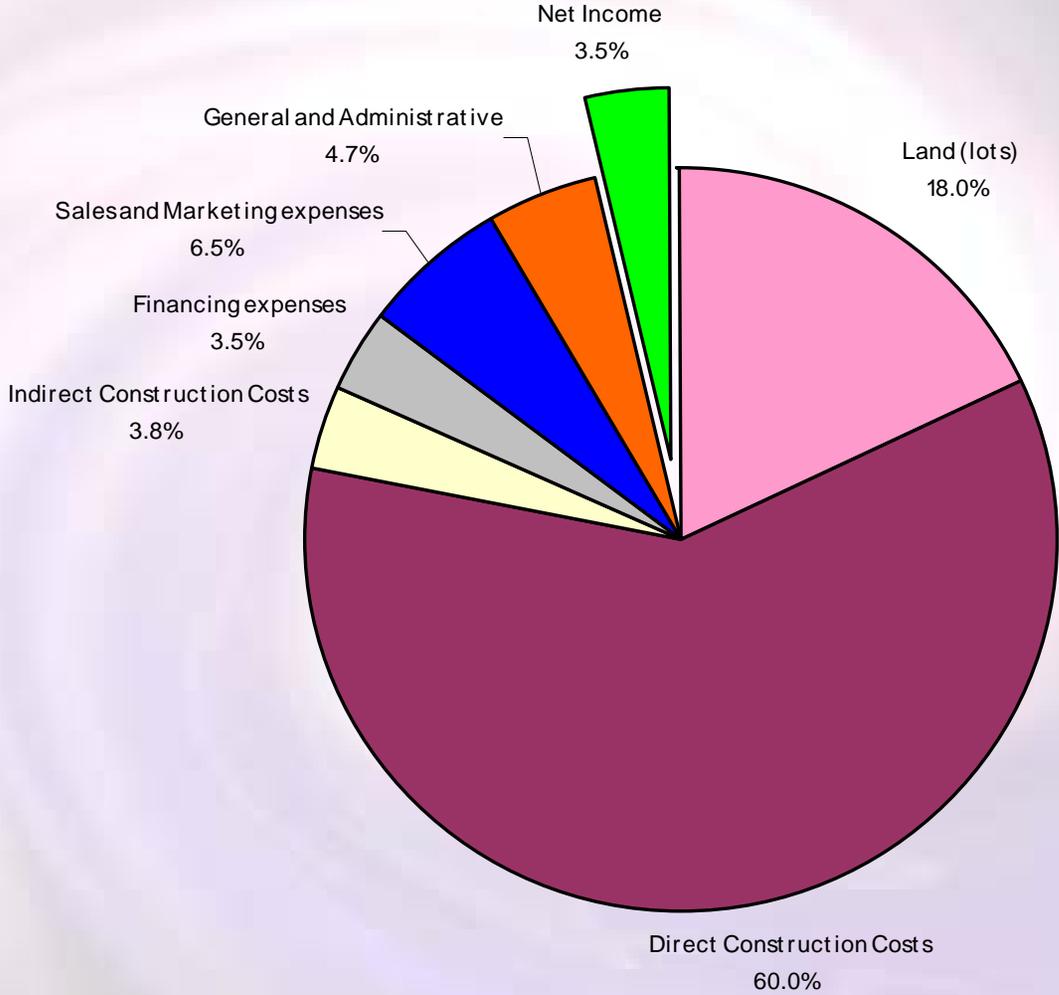
ABZ Homes

Income Statement

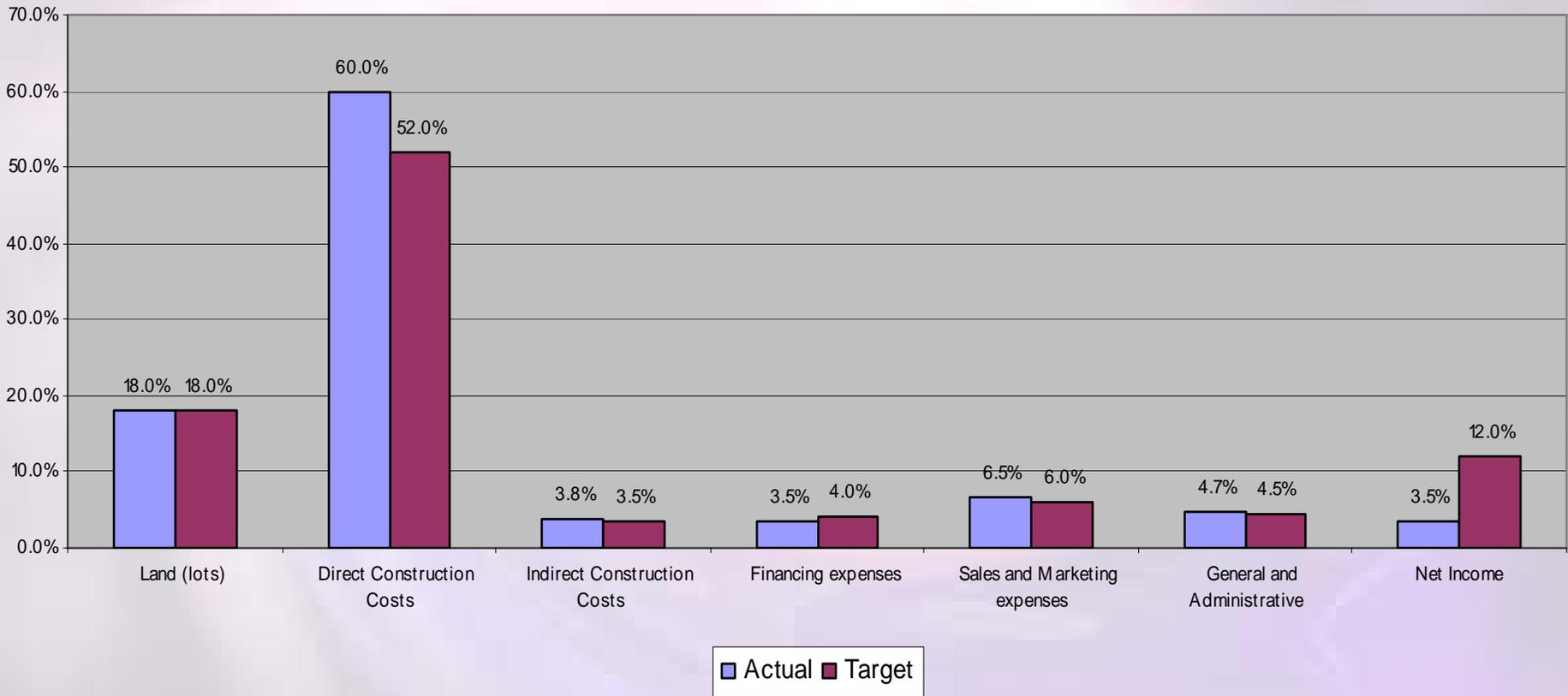
Year ended December 31, 2008

	Actual	Ratios	Target
Sales	\$5,345,500	100.0%	100.0%
Cost of Sales:			
Land (lots)	962,190	18.0%	18.0%
Direct Construction Costs	3,207,300	60.0%	52.0%
Total Cost of Sales	4,169,490	78.0%	70.0%
Gross Profit	\$1,176,010	22.0%	30.0%
Operating Expenses:			
Indirect Construction Costs	\$203,129	3.8%	3.5%
Financing expenses	187,092	3.5%	4.0%
Sales and Marketing expenses	347,458	6.5%	6.0%
General and Administrative	251,238	4.7%	4.5%
Total Operating expenses	988,917	18.5%	18.0%
Net Income	187,093	3.5%	12.0%

Income Statement December 31, 2008



Income Statement December 31, 2008



ABZ Homes

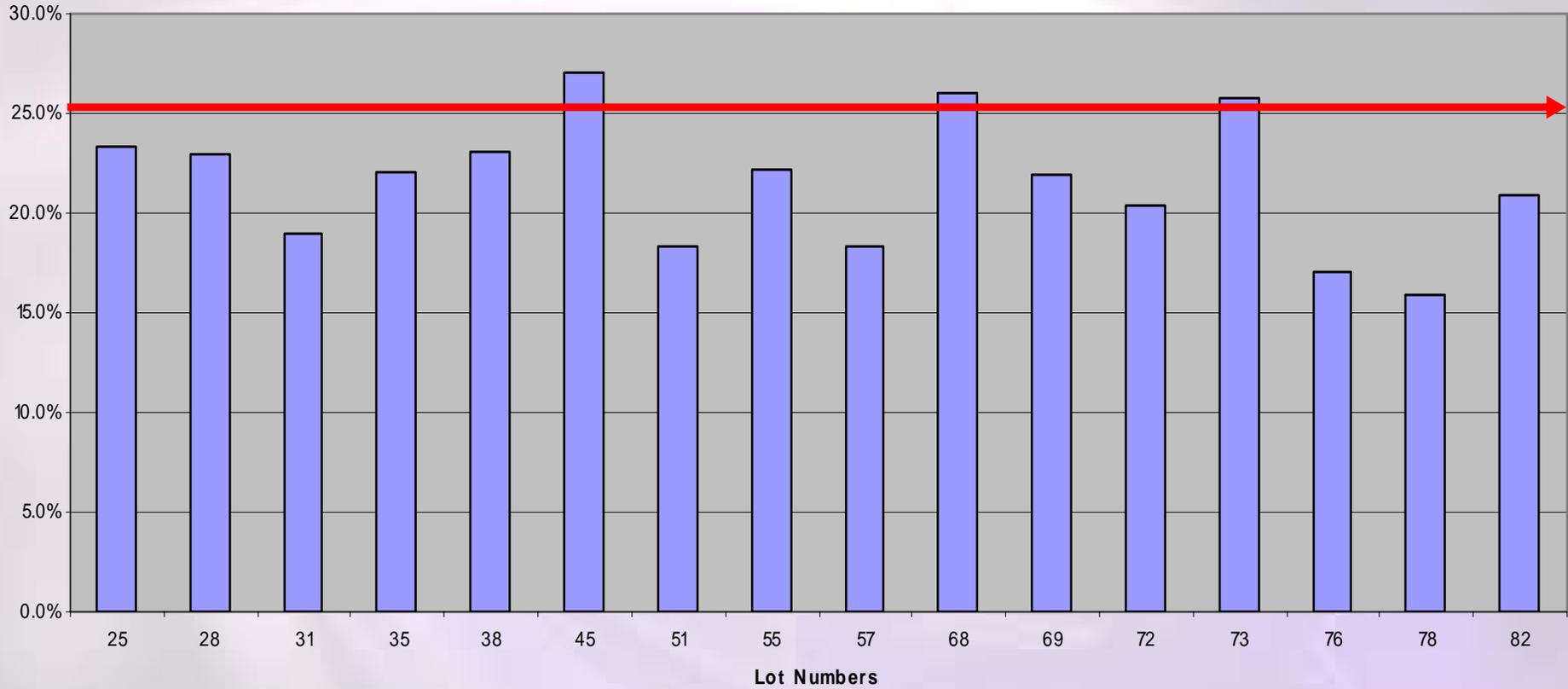
Gross Profit Analysis

Year ended December 31, 2008

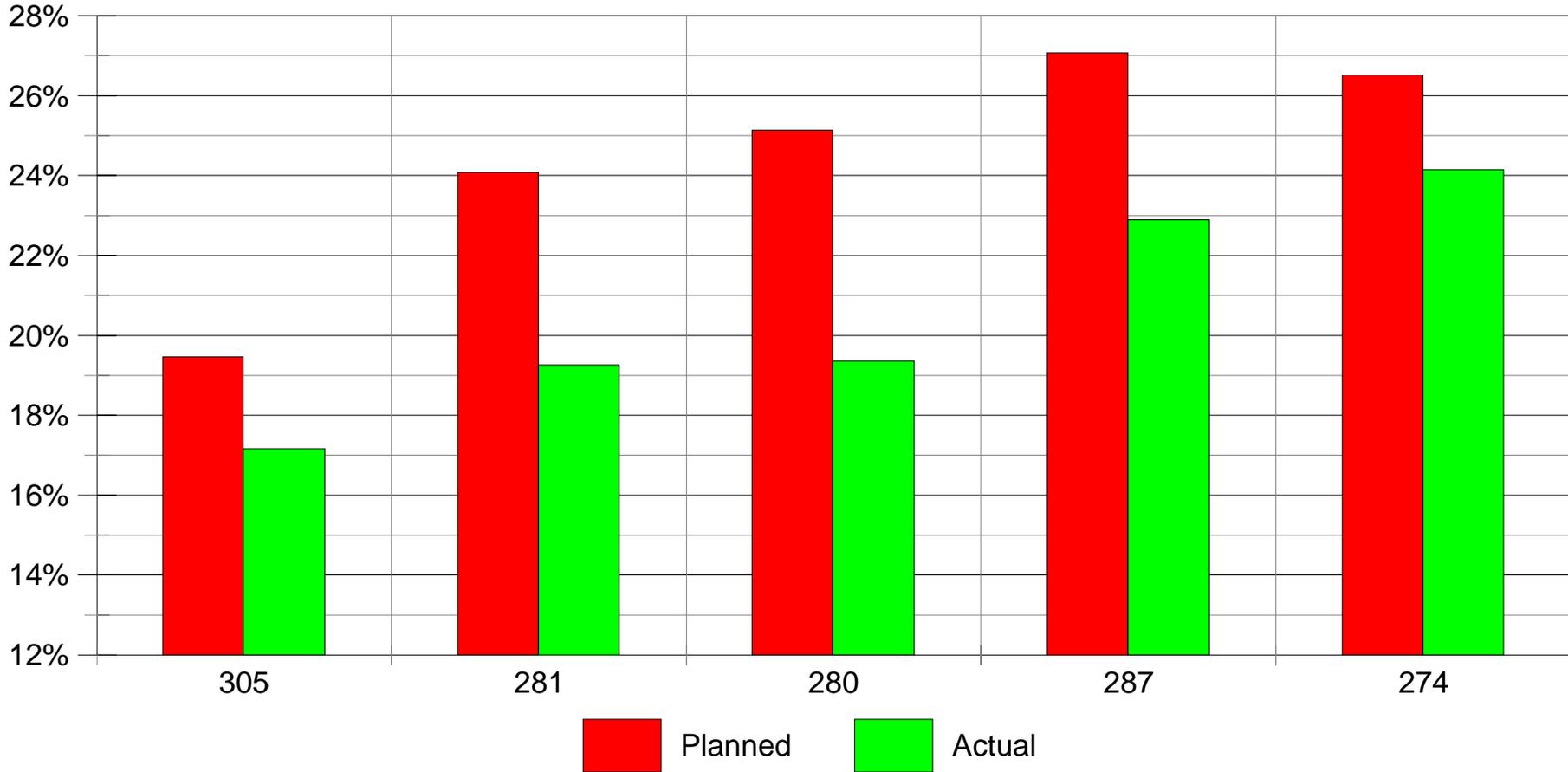
Lot #	Sales Price	Lot Cost	Direct Cost	Total Cost	Gross Profit	% GP
25	\$358,000	\$64,000	\$210,440	\$274,440	\$83,560	23.3%
28	\$375,000	\$64,000	\$225,000	\$289,000	\$86,000	22.9%
31	\$295,000	\$56,000	\$182,900	\$238,900	\$56,100	19.0%
35	\$345,000	\$62,000	\$207,000	\$269,000	\$76,000	22.0%
38	\$328,000	\$62,000	\$190,240	\$252,240	\$75,760	23.1%
45	\$428,000	\$64,190	\$248,240	\$312,430	\$115,570	27.0%
51	\$275,000	\$54,000	\$170,500	\$224,500	\$50,500	18.4%
55	\$360,000	\$64,000	\$216,000	\$280,000	\$80,000	22.2%
57	\$275,000	\$54,000	\$170,500	\$224,500	\$50,500	18.4%
68	\$389,000	\$62,000	\$225,620	\$287,620	\$101,380	26.1%
69	\$410,000	\$66,000	\$254,200	\$320,200	\$89,800	21.9%
72	\$285,000	\$56,000	\$171,000	\$227,000	\$58,000	20.4%
73	\$395,000	\$64,000	\$229,100	\$293,100	\$101,900	25.8%
76	\$258,000	\$54,000	\$159,960	\$213,960	\$44,040	17.1%
78	\$245,000	\$54,000	\$151,900	\$205,900	\$39,100	16.0%
82	\$324,500	\$62,000	\$194,700	\$256,700	\$67,800	20.9%
Totals	\$5,345,500	\$962,190	\$3,207,300	\$4,169,490	\$1,176,010	22.0%



Gross Profit Analysis December 31, 2008

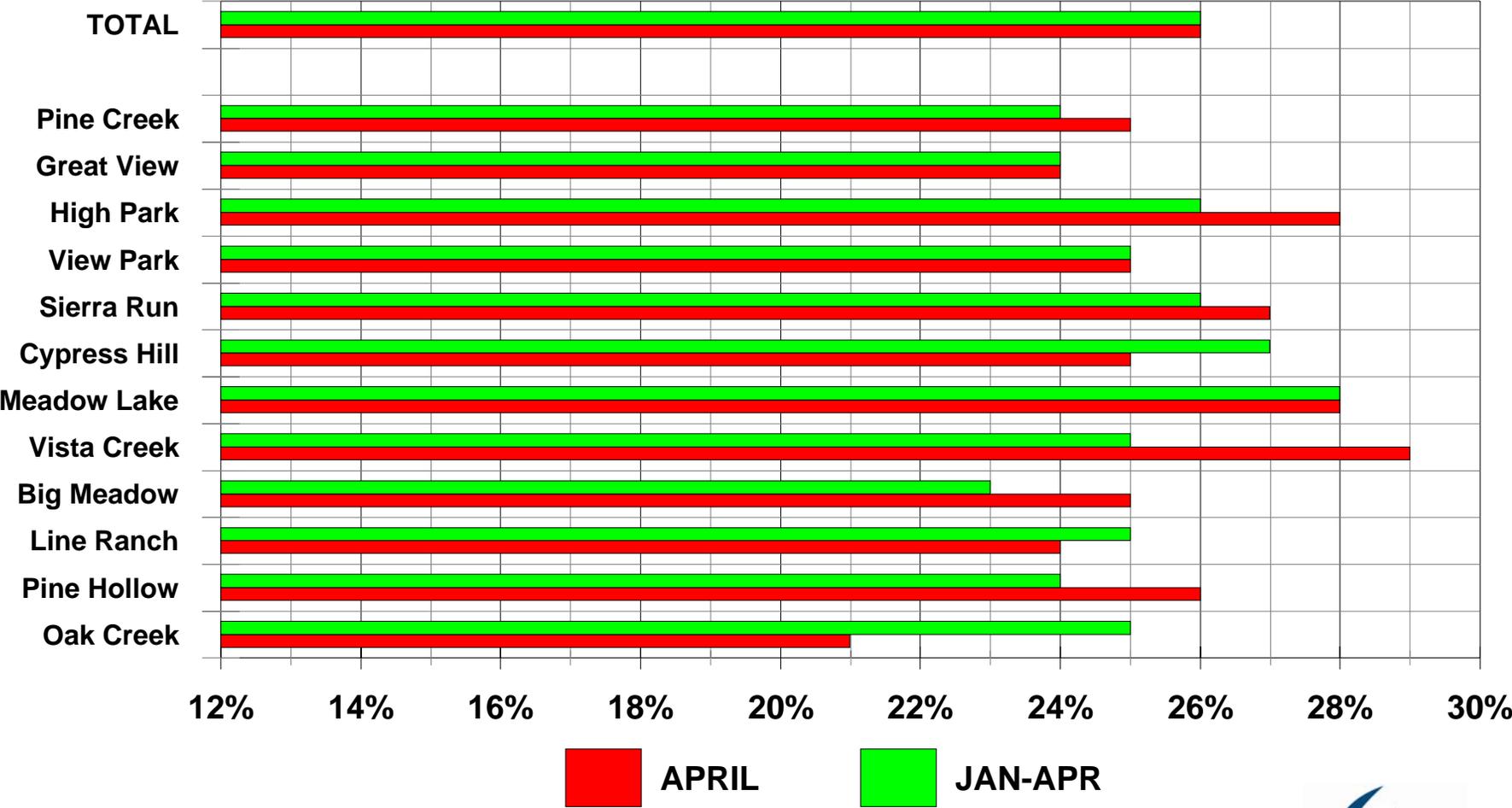


GROSS PROFIT PER UNIT

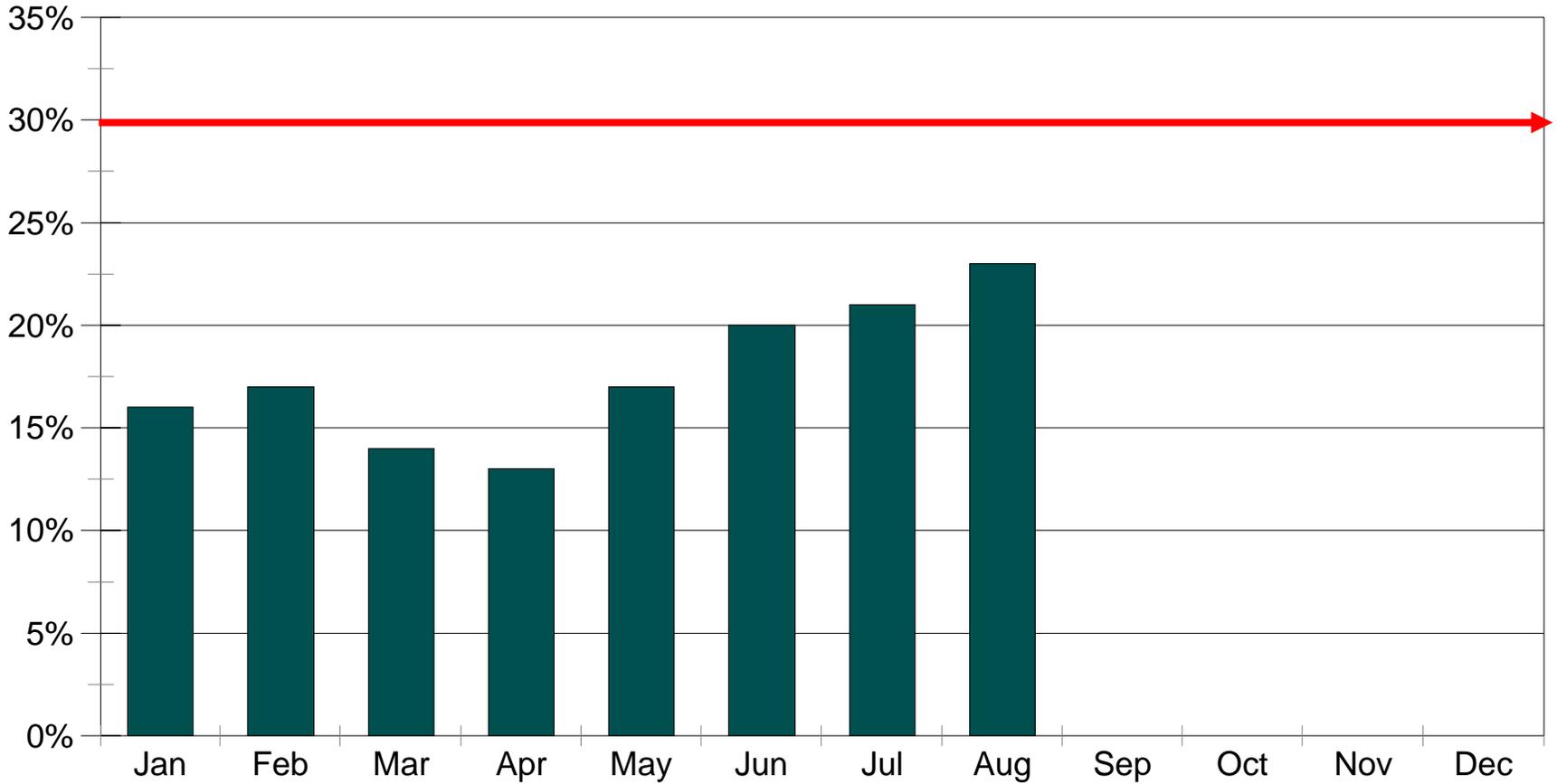


GROSS PROFIT ANALYSIS

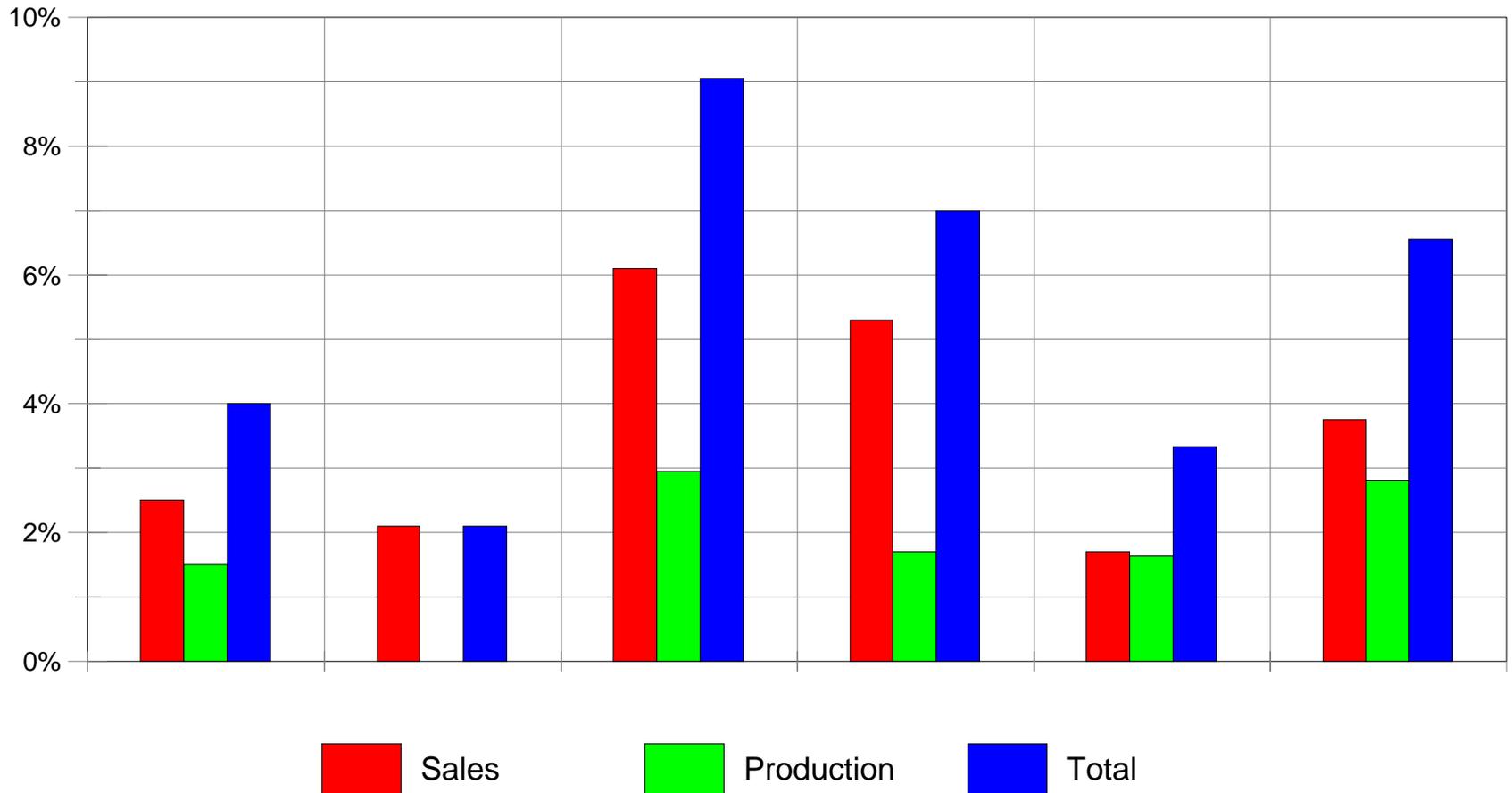
January - April 20xx



GROSS PROFIT



Gross Margin Variances



ABZ Homes
Balance Sheet
December 31, 2008

ASSETS		
Current Assets:		
Cash	\$125,000	
Receivable	\$15,000	
Inventories	\$2,155,000	
Total Current Assets		\$2,295,000
Fixed Assets		
Office equipment		
net of depreciation		\$73,000
Other Assets		\$2,000
TOTAL ASSETS		\$2,370,000

LIABILITIES AND OWNERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$305,750	
Customer Deposits	\$44,250	
Construction loans	\$1,600,000	
Total Current Liabilities		\$1,950,000
Other Liabilities		\$45,000
Total Liabilities		\$1,995,000
Owners' Equity		\$375,000
TOTAL LIABILITES AND OWNERS' EQUITY		\$2,370,000

Ratio Analysis

	Actual	Target
Current Ratio	1.2	1.5
Current Assets / Current Liability		
Inventory Turnover	2.5	3.5
Sales / Inventory		
Debt to Equity	5.3	3
Liabilities / Owners' Equity		
Return on Investment	50%	50%
Net Income / Owner's Equity		

Ratio Analysis

Return on Investment = Return on Sales x Asset Turnover x Leverage

$$\frac{\text{Profit}}{\text{O.E.}} = \frac{\text{Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{O.E.}}$$

Cash Flow Statement

CASH FLOW	Jan	Feb	Etc.	Year To tal
BEGINNING CASH BALANCE				
CASH RECEIPTS:				
Cash Sales				
Collection on Receivables				
Collection of Notes Receivable				
Deposits by Customers				
Construction Loan				
Other				
Total Available Cash				

CASH DISBURSEMENTS:			/	
Payment of Accounts Payable			/	→
Payroll – Net			/	→
Construction Loan			/	→
Taxes			/	→
Income Tax			/	→
Payroll			/	→
Real Estate			/	→
Land Purchase			/	→
Interest			/	→
Other			/	→
Total Disbursement			/	→
Total Cash Available	↓	↓	↓	↓

Total Cash Available				
Minimum Cash Requirement				
Cash Excess (or Shortage)				
CASH REQUIREMENTS				
Borrowed Funds				
Repayment of Borrowed Funds				
ENDING CASH BALANCE				

Target Ratios

Custom Home Builders

(Under \$5 Million in Sales on Customer's Land)

	Target
Sales	100.0
Cost of Sales	75.0
Gross Margin	25.0
Indirect Construction Costs	2.5
Financing Expense	1.5
Marketing Expenses	3.0
General and Administrative Expense	4.0
Owners' Compensation	4.0
Net Profit	10.0

Questions & Comments





A widely recognized and well-respected leader in *providing support and training to homebuilders and other organizations in the home building industry.*



An agent for its members and associates aimed at *fostering communication and cooperation between builders and manufacturers.*



Featured Services

- Virtual Advisory Board
 - Hourly coaching-consultation with market-tested strategies for your specific, urgent problems
- Customized, quick, reasonably-priced land valuation and / or project forecasts
- In-house customized training programs
- In-depth understanding of home builder operations
- Specific market research / intelligence
- Evaluation of key performance ratios
- Home builder advisory assistance to help clients cut costs, sell houses, and pay off loans
- Assistance in restructuring loans to increase payoff
- Assistance with liquidations or workouts
- Sale of assets

**Contact Emma Shinn at eshinn@theshinngroup.com
to discuss service options.**

Upcoming Webinars

- Market Watch 2009
 - January 30, 11 AM EDT
- Get More from your Current Website
 - February 11, 11 AM EDT
- Financial Impacts: Decisions for Changing Markets
 - February 19, 4 PM EDT

Visit the Builder Partnerships Events page for more information.

www.builderpartnerships.com



Increase your Returns



- Most manufacturers offer incentive programs but not many builders are taking advantage of them to the fullest extent
- Builder Partnerships offers **over \$2500** in incentives per unit constructed
- Builder Partnerships allows you to focus your efforts on negotiating to get the best price without having to worry about the rebates
- We manage the incentive programs and follow up with manufacturers to collect the money so you don't have to
- For more information on how to join, contact Glenn Singer (glenn@builderpartnerships.com).

MANUFACTURER ASSOCIATES:

SERVICE ASSOCIATES:



Builder Clients



Shinn Group clients represented by the red dots, blue diamonds indicate Builder Partnerships members

The Shinn Group has over 500 builder clients disbursed throughout the US and Canada. Our clients typically construct between 50-2000 units annually. They build across all price points. Many of our builders are repeat award winners and leaders in their respective markets.

Through Builder Partnerships, we represent over 100 builders constructing approx. 25,000 units annually across the US and Canada