



LEE KENNEDY

Let's build on big thinking

Project Financial Management

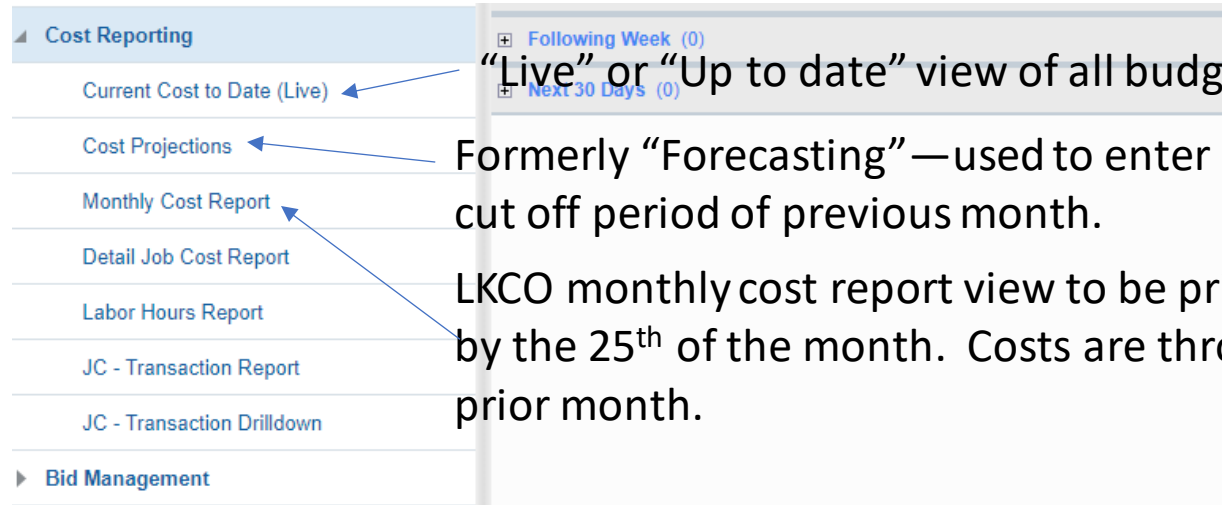
March 16, 2023

What are we doing here today?

- Update on some lessons learned and updates made since first round of cost reports
- Get everyone on the **SAME PAGE** relative to *timing*, *terminology* and *methodology* when managing project finances.
 - As we know, there are many ways to “skin the cat” regarding how to manage finances. Careful attention has been made at developing a framework in how to manage your project without limiting creativity or project specific requirements.
- Encourage everyone to **get involved**—make this a valuable tool for the company. Feedback is welcome and encouraged.

CMiC Updates/Enhancements since January Cost Reports

- Re-organization/Re-labeling of folders



“Live” or “Up to date” view of all budgets and costs to date

Formerly “Forecasting” — used to enter projections as of the cut off period of previous month.

LKCO monthly cost report view to be printed and issued to CFO by the 25th of the month. Costs are through cut off period of prior month.

- Updates to “cost projections” formerly “forecasting” module

Points of Emphasis

- Get paid on time
- Positive cash flow
- Accurate Manpower Projections
- Accurate and clear cost reports—focus on contingency



Financial Time-line/Monthly Cycle

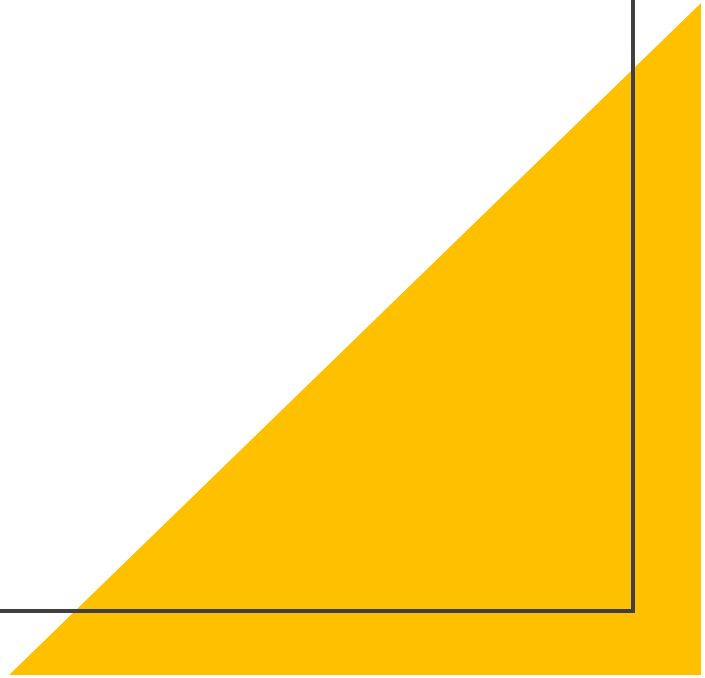
- Pencil Requisition—submitted by 30th of month
- Final Requisition—**approved by 10th of month**
- All subcontractor requisitions/misc invoices approved by 12th of month
- 1st Draft Cost Report to PEx/VP **NLT 15th of month/SP-Final Due on 15th**
- Final Cost Report to PEx/VP by **NLT 21st of month**
- Submit to CFO **NLT 22nd of month**
- Monthly Cost Report Review Meeting (To be scheduled monthly between 23rd and 30th of month)
- Monthly Analytics issued by Cost Controller by 28th of month

Cost Report Purpose:

- Tells a story/narrative about the financial health of the project.
 - Use it as a TOOL.
 - Enter accurate projections, then review the data, analyze it and then come to a conclusion—sometimes the data tells a different story than your gut feeling!
 - Done properly, it will reveal the financial health of the project
- It is a snapshot in time.
 - We now analyze the costs as of the end of the month. This will allow us to compare more accurately changes from month to month and also let us directly compare to amount billed vs cost.

Cost Report **Focus Areas:**

- Labor Projections
- Fee
- Contingency



Focus Area: Labor Projections

- Utilize “GC Monitor” projection methodology for ALL supervisory/administrative personnel.
- For other labor—ex “temp doors”, “floor protection” etc, utilize standard projection methodology

Focus Area: Fee

- Fee on the cost report is the Job Level profit that we expect to earn on the project.
- Comprised of the following:
 - Stipulated fee –calculated as a percentage of cost at the time of the GMP, this is the minimum fee that we expect to earn on a project.
 - Shared Savings—we split any savings left in the GMP with the owner at the conclusion of the project.
 - Incentives—typically schedule related, where we earn additional fee when we achieve certain milestones on the project.
 - Lump Sum General Conditions—we agree to take the full risk (and benefit) of the General Conditions budget.

Focus Area: Contingency

- A provision for an unforeseen even
 - A bucket of money set aside for something that we did not plan on
- In terms of a cost report, the contingency is the total “cushion” that protects LKCO fee—it is the difference between our contract value and expected final cost.
- On a **GMP Cost Report**, the contingency is the **BOTTOM LINE VARIANCE** and is the **singular most important number on the entire cost report.**
- Note that the following slides pertain mainly to General Construction department projects and SP/Interior projects may differ in calculating/reporting contingency...

Contingency Calculation

- If the bottom line variance is the actual project contingency, we need to ensure that this number is accurate requiring the following considerations:
 - Accurate projections within individual line items (including Related Costs)—spend time analyzing *expected* costs on each line item and not just default to “spending the budget”.
 - Insurance and Fee—since no costs will be incurred for these items, the default calculation will result in a positive variance equaling the budget. Therefore, we plug a value in the Cost to Complete column in order to not pollute the variance column.
 - Lump Sum General Conditions—**total** variance on GC items must be zero, therefore we plug a value equal to the proposed savings (or overage) into the Cost to Complete line (standard cost code “013500.00 LS General Condition Adjustment).
 - Allowances—since we take zero risk on Allowances by contract, we always plug a value into the Cost to Complete line (either + or -) in order to keep the variance equal to zero.
 - Pending Change Orders or backcharges—when we proceed with change orders or perform backcharge work that we KNOW we will be reimbursed for, we typically plug a negative value in the Cost to Complete in order to keep the variance zero.
 - Note that in all circumstances when a negative value is entered in the Cost to Complete, always enter a note explaining why—as this is an atypical situation and could have been entered in error.

Insurance and Fee example

We enter amounts in the Cost to Complete for Fee and Insurance so that variance on these lines is zero.

Time: 12:20 PM EST

Cost Code	Cost Code Name	Original Budget	Current Budget	Actual Cost	Remaining Committed Cost	Cost To Complete	Cost At Completion	Completion Variance	Notes
990501.00	Construction Manager Fee	166,419.00	497,436.44	0.00	0.00	501,843.32	501,843.32	0.00	
990615.00	Subcontractor Default Insurance	70,756.00	206,674.99	70,756.00	0.00	137,922.12	208,678.12	0.00	
990650.00	LKCO Insurance	74,008.00	206,410.49	0.00	0.00	208,413.62	208,413.62	0.00	
990800.00	Building Permit	0.00	0.00	1,895.75	0.00	0.00	1,895.75	-1,895.75	
995050.00	Contingency	284,648.00	471,638.00	0.00	0.00	0.00	0.00	471,638.00	
995051.00	Buyout Savings	0.00	237,183.36	138,247.57	7,981.91	0.00	146,229.48	90,953.88	
REV	General Conditions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
		6,218,031.00	14,992,471.70	13,573,806.30	52,713.11	1,008,429.06	14,634,948.47	526,186.37	

No items open on contingency log, because zero known contingency draws identified, nothing entered on cost to complete.

This number represents the "Project Contingency"


Allowance and Related Cost example

Note how cost to complete is adjusted for allowance to make variance zero

Cost Code	Cost Code Name	Original Budget	Current Budget	Actual Cost	Remaining Committed Cost	Cost To Complete	Cost At Completion	Completion Variance
074123.00	Aluminum Composite Wall and Soffit Panels - Canopy	0.00	197,965.00	184,315.01	0.00	13,649.99	197,965.00	0.00
078100.07	Spray Fireproofing	0.00	0.00	0.00	0.00	0.00	0.00	0.00
078100.08	Related cost - Misc. scraping & patching	0.00	5,004.00	4,542.18	0.00	461.82	5,004.00	0.00
079200.00	Allowance - Joint Sealants Canopy	0.00	2,800.00	1,318.55	0.00	1,481.45	2,800.00	0.00
080000.00	OPENINGS	0.00	23,375.00	23,375.00	0.00	0.00	23,375.00	0.00
081113.01	Related cost - Remove, store & reuse door 185	0.00	650.00	0.00	0.00	650.00	650.00	0.00
081113.02	Related cost - Quick ship HM frames to meet schedu	0.00	2,542.00	2,542.00	0.00	0.00	2,542.00	0.00
084313.00	Allowance - Modifications to Existing Storefront -	0.00	5,000.00	0.00	18,750.00	-13,750.00	5,000.00	0.00
090000.00	Gypsum drywall	24,500.00	29,626.00	29,626.00	0.00	0.00	29,626.00	0.00



Wrap up

- **Focus on:**
 - **Ensure we are billing all of our costs**
 - **Ensure we are focusing on getting paid on time**
 - **Proper understanding and identification of project contingency**
 - **Identify and manage risks**
 - **QUESTIONS??**
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- A yellow triangular graphic is located in the bottom right corner of the slide, pointing towards the top right.