2013

G3

Accelerated Value Diagnostic

NEWCO

G³ LLC
1660A Old Pecos Trail
Santa Fe, NM 87505
(T) 1.888.891.7844
(O) 505.954.1104
(F) 505.333.4494
WWW.GROWTH3.COM

TABLE OF CONTENTS

This page was intentionally left blank.

AVD Executive Summary

NEWCO is a very impressive company operating in what has been a very difficult economy and sector in recent years: the property management division. People will always need a place to live so the Long-term Rental Business will necessarily be more stable, especially with high foreclosure rates and difficult to obtain Real Estate Financing. The successes in the Vacation Rental realm speak to an excellent company when discretionary and luxury spending has decreased markedly.

In 2008, travel declined significantly in the wake of the economic crisis. NEWCO was faced with a crucial decision as to whether or not to shut down and liquidate 50% of their operations or acquire a competitor. In a "do or die" moment for the company the owners made personal loans to the company totaling $1.1 million to enable it to buy their main competitor, The ManagementGroup from wiping them out altogether.

Since then, the big bet paid off, allowing the company to restore profitability, but of course left it with a significant debt. NEWCO has been working diligently to pay it down since the acquisition. The scope of this Diagnostic is limited to NEWCO's Property Management endeavors, leaving NEWCO's Real Estate department out of the range of the overall assessment. NEWCO's area of operations has made tremendous strides in the form of operational feats and real financial gains.

As a hyper-growth company very successful at launching new revenue streams, NEWCO has had little time to stop and reflect upon the various facets of the company as they relate to its tremendous potential. G^3's main critique, from all angles of operation, is that NEWCO tends to be reactive versus proactive in planning for future endeavors, occasions of adversity and the like. With a few proactive plans in the various areas of operation of the company, it may be able to mitigate a majority of its current quandaries by having a plan of action in place and ensuring various grounds are covered before any problem may arise.

Conclusions

NEWCO has a tremendous potential for reaching its ultimate successes. The company has few issues it can focus on immediately to gain great strides in producing even greater achievement. Overall, in every aspect of the company, we recognize a pattern of needs:

1) Achieve greater communication among employees and sectors of operation to better understand every level of employee contribution, expectation and results.
2) Plan rather than react to adversity or other operational issues.
3) Construct a blueprint for growth in the areas of hiring, budgeting, and operations.
4) Gain positive results from relationship building with broad base of customers.

Our general conclusions break down as follows:

- Financial—NEWCO is on a path to lower costs and continue to pay down debt. Making great financial strides. There is a ton of opportunity to focus on low-cost, high gain revenue generators.
- HR—A high-class problem to have: as the company grows customer base, greater needs in HR arise. Staff is generally happy and would like to continue that relationship with high-performance incentives.
- Operational—Tremendous potential with talented management staff on board. Sales and Marketing—Excellent start to marketing infrastructure, which translated to high sales, numbers with broad client base.
- Liabilities and Risk Management—company has few threats, past and present, to report, which indicates they should have a great future with internal focus on few changes to mitigate any future problems.
- Market and Industry—with an excellent stance in market share and small business performance, the company will only benefit from a consistent, comprehensive approach to evaluating opportunities and risk.

Recommendations:

- Financial—Set budgets according to the various areas of operation, maintain them as performance needs morph. Organize and monitor financial data by revenue stream.
- Operations-- Distributing responsibilities better, documenting procedural norms more thoroughly, focusing on customer relations and fixing IT remain essential needs.
- HR—Needs a fair bit more of organization to protect company and plan for successful future. Performance-based incentives and surveys of staff will improve morale and staff may feel as if they are responded to.
- Sales and Marketing—Improvement of steady, long-term rental programs and other organizational norms, (including budgeting), within sales and marketing department will provide the necessary starting point for improving the company's long term goals.
- Operations—Implementation of planned improvement strategies will be a major start for creating accountability, measuring results and reaching potential.
- Liabilities and Risk Management—Internal review of current processes, procedures and business goals will help mitigate risk prior to having to cope with actual problems. Proactive response to threats before they arrive will improve overall efficiency and lower cost.

The contents of this report provide greater detail regarding how G³ came to these conclusions and what can be done to actively respond to certain needs.

G³ is available to answer any questions that may arise regarding the contents of this report and can help further clarify any conclusion that may have been misinterpreted by the person(s) assessing that area. Our overall aim is to provide you an objective, third-party opinion based on our short-term observation. The information enclosed is entirely confidential and will only be available to management staff who have called upon our services to conduct this Accelerated Value Diagnostic. We only hope to provide you the tools and resources to help your company succeed in reaching its immense potential.

Every key performance area that has not reached its optimum potential can be reinforced and put into action by the G³ Business Advisor in your territory. We stand by every recommendation we have provided and can utilize the G³ Network to execute on every action we recommend. It is our hope and business objective to help every business reach their utmost potential in the areas we recognize for improvement. We thank you for this tremendous opportunity to work with your company and look forward to a long and fruitful business relationship.

G³ BAR Score

No.	Item/Issue	KPI 1-5
	G³ Business Assessment Ratio - BAR Score	
	Financial Review	
1	Revenue	4
2	Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	4
3	Selling, General and Administrative Expenses (SG&A)	3
4	Liquidity, Profitability and Leverage Ratios	2
5	Direct Costs of Goods and Services	3
6	Payroll Ratios	3
7	Accounts Receivable	5
8	Bad Debt	5
9	Accounts Payable	3
10	Book Value	1
11	Financial History and Data Quality Assurance	4
12	Liabilities Analysis	2
13	Assumable Loans	4
14	Return on Capital Invested	3
15	Lines of Credit	2
16	Total Assets Evaluation	4
	Financial Review | Area BAR	**736**
	Human Resources Systems and Procedures Evaluation	
17	Human Resources Processes and Procedures	3
18	Employee Contracts	3
19	Evaluation of New and Potential Employees	4
20	Employee Performance Review System	3
21	Employee Benefits	5
22	High Employee Morale	4
23	Employee Turnover	4
	Human Resources | Area BAR	**762**

Operational Evaluation		
24	Operational Processes and Procedures	2
25	Quality Control and Assurance Management	3
26	Service or Product Diversification	4
27	Distribution of Products and Services	3
28	Owner and Management Evaluation	4
29	Supply Chain Demand	4
30	Equipment Evaluation	4
31	Infrastructure and Appearance of Location(s) of Operations	5
32	Regulatory Controls	5
33	Rent, Leases and Mortgages	4
34	Information Technology Systems and Utilization	4
Operational Evaluation | Area BAR		**771**
Sales and Marketing		
35	Sales and Marketing Program Evaluation	3
36	Client to Revenue Distribution	4
37	Revenue per Service and Product	3
38	Goods and Services Pricing	3
39	Inventory Turnover	5
40	Sales Personnel Analysis	3
41	Customer Service	2
Sales & Marketing Area BAR		**733**
Liabilities and Risk Management		
42	Past, Threatened or Current Litigation	3
43	Legal Expenses	3
44	General Liability Insurance	4
45	Workers' Compensation	4
46	Business Resilience and Security	3
Liabilities and Risk Management | Area BAR		**737**

Industry and Market Evaluation		
47	Industry and Competition	4
48	Market Dynamics and Share	5
49	Service or Product Market Demand	3
50	Current and Projected Growth Rates	3
Industry and Market Evaluation | Area BAR		**757**

G³ BAR Score

Overall Performance

747

BAR Score, 710-779: Company is “stable” and peforming at an average ratio to other businesses.

Introduction

G³'s Accelerated Value Diagnostic is designed to analyze and evaluate the overall health of an enterprise, with the goal of identifying revenue growth and efficiency enhancing opportunities throughout the business. The Accelerated Value Diagnostic is a thorough and comprehensive analysis of the company, providing details on areas where the company can improve its overall revenue streams.

Purpose and Objective

G's Accelerated Value Diagnostic (AVD) is designed to uncover and quantify inefficiencies within the business, identify opportunities for revenue growth, and stimulate ways to cut costs and build the business.

The goal and objective of the AVD are to increase revenue and decrease expenses and ultimately add the value to the enterprise. Our systematic approach evaluates all aspects of the business to determine optimal methods to attain growth and achieve cost savings.

Audit Scope

The Accelerated Value Diagnostic gathers and analyzes information reviewing and assessing the following aspects of the business:

- Business Background Information and Structure
- Financial Statements and Balance Sheet Analysis
- Human Resource Systems and Procedures
- Operational Evaluation
- Sales and Marketing
- Liabilities and Risk Management
- Industry and Market Dynamics

Analysis

This report addresses each of the aforementioned areas of the company with specific conclusions and recommendations based on the thorough analysis of data provided by the business. G³ collects qualitative and quantitative data to evaluate the company on a total of fifty key performance indicators (KPI). G³'s standard for reviewing each item of interest for the Client is the following:

1. **Definition** of the item of interest for investigation.
2. The **objective** of reviewing and assessing the area of interest.
3. The definitive process and methods of **investigation** and analysis of the business.
4. The Auditor's **observation** of qualitative and quantitative data.
5. Final **conclusions** drawn from the overall assessment.
6. **Recommendations** derived from the audit investigation.

G³ BAR Score[1]

After assessing each item, G³ assigns the business a BAR score based on all essential variables aggregated and weighted to their value to the company. The BAR score is G³'s proprietary measure in which businesses gain a measure on the holistic success and health of the company. The company's overall value can then be presented as a means for reaching the company's full potential, future sale and investment, and other such strategic planning of the company's overall performance. The BAR Score is a standard measure in which all businesses can objectively be compared and contrasted from a universal scoring perspective.

Individual Scores	1	Seriously deficient in meeting target
	2	Far from meeting the target
	3	Trending toward meeting target
	4	Target generally met
	5	Meets and exceeds target

G³ BAR Score	450-579	Serious Trouble
	580-709	Trouble
	710-779	Stable
	780-829	Very Stable
	830-850	Extremely Well Run

[1] The Business Assessment Ratio (BAR) Score is G³'s proprietary platform to inform businesses of their holistic business performance and the health of their company.

Financial Review

Analysis of financial data is fundamental to the success of a company. Financial ratios, trend and standard performance must be scrutinized in order to evaluate the financial health of the business by providing an assessment of risk and profitability of the firm. This area of the G³ Diagnostic Audit reviews the financial landscape to discover areas for improvement and growth opportunities. Such a review promotes transparency and accuracy in the overall financial activity and delivers a fair representation to help inform the parties of where the business resides in a profit-loss market.

Obtaining present and historic financial data is essential in providing an adequate analysis to provide ample recommendations. Based on the premise that all financial statements are presented fairly, in a material respects, we have offered a true and fair report of our analysis and recommendations based on our findings within the financial reporting framework.

In this section the following financial areas are examined, with trends, ratios and metrics evaluated and assessed for accuracy:

- Revenue
- Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
- Selling, General and Administrative Expenses (SG&A)
- Direct Costs of Goods and Services
- Payroll Ratios
- Accounts Receivable
- Accounts Payable
- Book Value
- Financial History and Data Quality Assurance
- Liabilities Analysis
- Bad Debt
- Assumable Loans
- Return on Investment
- Lines of Credit
- Total Assets Evaluation

Based on the areas assessed, the Small Business Diagnostic BAR Score calculates various variable inputs with corresponding industry benchmarks to evaluate and assess a company's performance against the competition and offer objective details regarding the business' financial performance. Most of the information reviewed is located in financial history and historical balance sheets and the financial reporting systems that the company has put in place.

Conclusions

Despite definite achievements in revenue gains, efforts to limit any new borrowing for acquisition of new properties, and continued monitoring of expenses, NEWCO is dealing with the challenge of cutting down their debt. The overall plan is to pay off the debt since the major expense of acquiring The Management Group in 2011. Since that point, NEWCO has still managed to see major returns on their investment with revenue growth and the addition of revenue streams: Housecleaning and Concierge services.

Although revenue has been rising steadily over the past three years, tne major struggle in analyzing the financial section was the lack of a budgetary plan per revenue stream or direct expenses spent on specific areas of operation. This lack of a budgetary plan made it difficult to conclude that spending was in good order relative to a budget plan. Most information in this regard was based on trends year-to-year versus budget versus reality.

NEWCO is working to fine tune new operational so as to get a handle on variance on operating expenses, and shows that COGS spending is beginning to plateau while revenue still increases.

Recommendations

Planning and organization are two of the major recommendations for each of the KPI areas of financial operations. While revenue is growing and investments have proven successful, the formations of budgets and strategies for any instances of adversity have not been created. Similarly, the organization of expenses may benefit from having a more clear structure in how expenses are directed and to which endeavor.

Because the company has Done well to invst its capital and see a return on investment in the past three years, it would benefit from planning future years and future growth. Overall, it may be that more planning for growth may be helpful in ensuring operational expenditure does not overstep current percentage of revenue growth and monitoring of high-cost operational performances are minimized while focus be placed on low-cost, high gain revenue streams.

G³ Business Advisors and their network have a vast array of help for financial planning and organizational consulting specific to helping remedy the specific areas that can use some revision can be a major help in for some of the particulars to getting financial operational efficieny up to its utmost ability while ensuring the company is rightly within budgetary constrants for operational expenses. Our network of financial consultants can help formulate budgets and aid with the implementation process based on drilling in on data currently available and financial review for what will best suit the company's needs.

FINANCIAL AREA BAR

FINANCIAL PERFORMANCE

736

DETAILED FINANCIAL REVIEW

I. Revenue

G³ defines revenue as the income received from the sale of goods and services in cash or cash equivalents. Revenue is the most critical part of our financial statement analysis in that it is one of the purest metrics, when measure against expenses, to evaluate a company's overall performance.

Objective

G³'s overall goal in assessing revenue is to ensure that the trend is increasing over time. By identifying revenue sources, various metrics can be used to assess other areas of the company against its revenue performance

Investigation

All revenue sources were provided by financial data received from 2010-2013 YTD for all Property Management related endeavors. The 2013 numbers were projected based on average growth and current revenue produced. G³ looks at seven separate income streams:

1. Vacation Rental Income
2. Long Term Management Income
3. Housecleaning Revenue
4. Commercial Rental Income
5. Sales/Referrals Income
6. Lease Only Rental Income
7. Concierge Revenue

Each of these sources is ordered from greatest revenue to least[2]. In reviewing the revenue streams into the various non-Real Estate Based Revenue Streams, we have categorized the

[2] "Other income" was listed as a category on the previous three years of income statements. The items have been redacted/removed due to their "one time" nature. The payments were intercompany payments, stock sales, income due to tax breaks or random income. Reporting this data confuses the trend of revenue gains due to executive order of company goals.

following revenue streams into two categories based on the differential between the top three revenue streams and the remaining items.

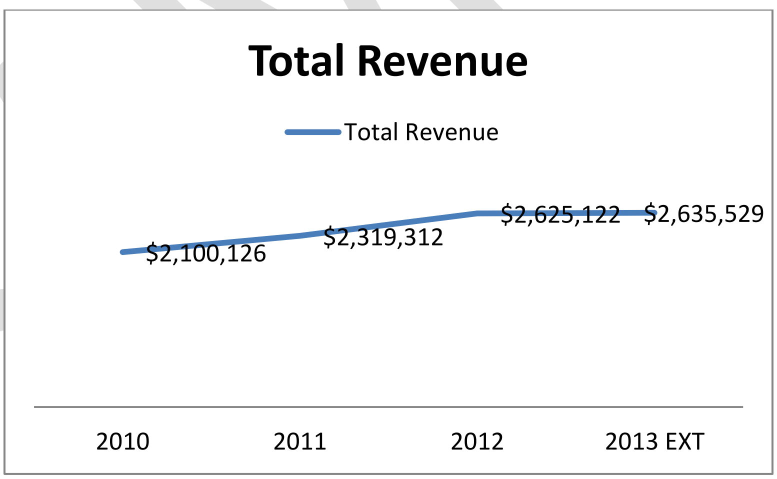
Because the Property Management business in the Mountain Town, Pax Valley and Tierra Vista rental markets is seasonal, it is important to define how the projection was defined. Based on information provided by Spencer Jones, CFO, the data reflects that Vacation Rentals are the highest revenue source. The trend reflects the following:

Month	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Market Trend	Low	Low	Mid	Low	Low	Mid	High	High	Mid	Low	Low	High

Low = Revenue so low it may send business into negatives
Med = Balances out low revenue with high and brings back up to either a break-even situation or perhaps a positive.
High = 1/3 to ½ of overall revenue over course of year.

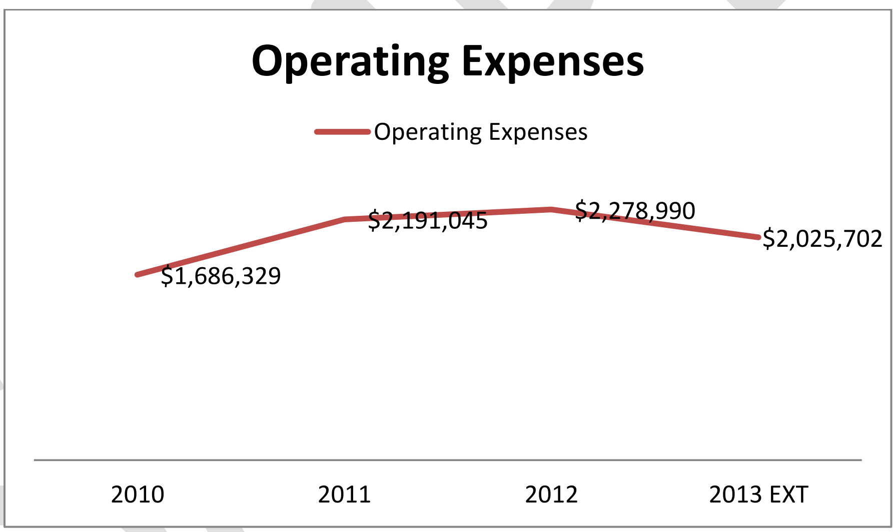
Observations

Revenue for the Property Management component of NEWCO is growing and is expected to continue to increase through the current fiscal year. Based on the data from 2012, the estimate is conservative, taking into account an increase in liabilities and the income received as of March 2013. It does not account for traditional spikes in revenue generally seen in July, August and December. The growth demonstrated in 2012 coupled with NEWCO's immense potential to grow based on explicit goals, revenue could increase by up to 23% as it did from 2011 to 2012 reaching **$2,983,197**.



Consistent revenue growth of 5% annually since 2010 has been sufficient to provide for debt reduction. Gross Profit projections are flat due to debt service needs and increased investing on additional revenue sources such as Concierge and Housecleaning services. Expenses for these services are expected to increase until they become established and stabilized.

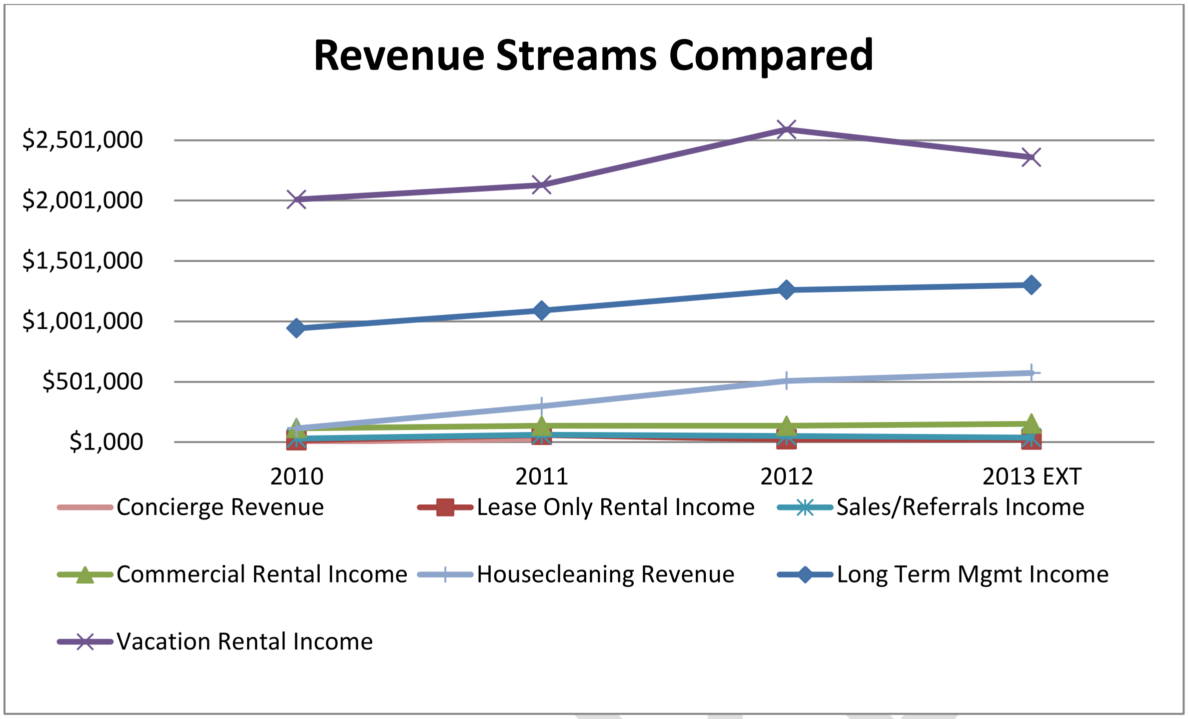
Gross Profit (*Total Revenue – Cost of Goods Sold*; illustrated above) has increased at a trend of 2% average annually from 2010-2013; (a conservative estimate to include 2013). This is in contrast to Operating Expenses (*SG&A + COGS*; illustrated below) which continue to rise at a conservative 6%.



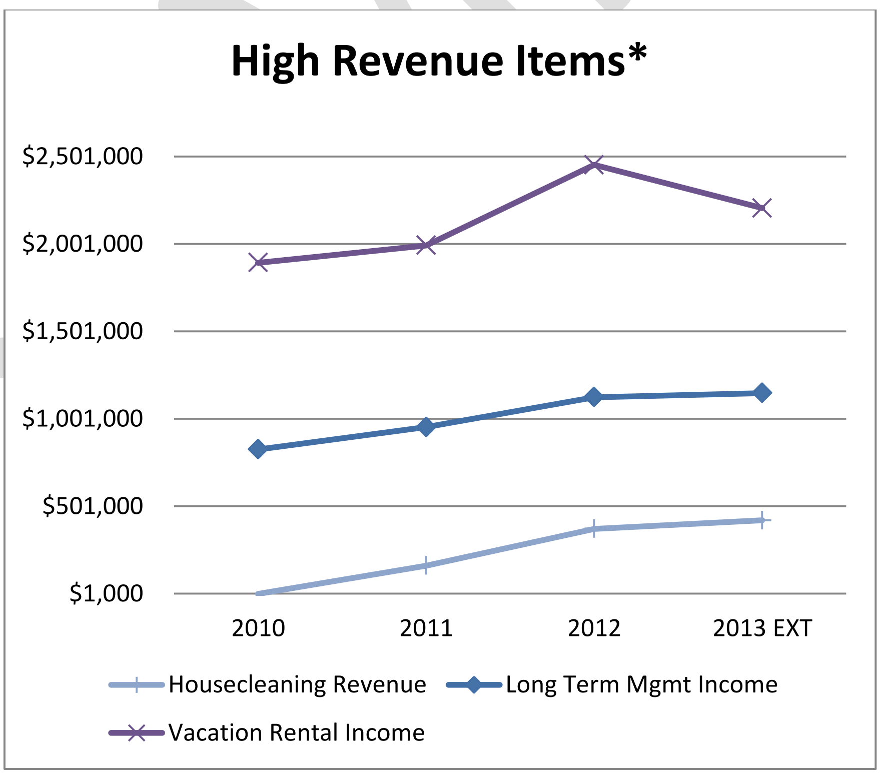
As long as Gross Profit continues to exceed Operating Expenses, (see EBITDA below), debt will be paid off and the company will remain profitable.

Revenue Streams Compared

G^3 has found that the clear revenue leader is Vacation Rental properties. According to the income statement, there is a wide gap between the highest income generators (Vacation Rentals, Long-Term Management and Housecleaning), and the remaining revenue sources.

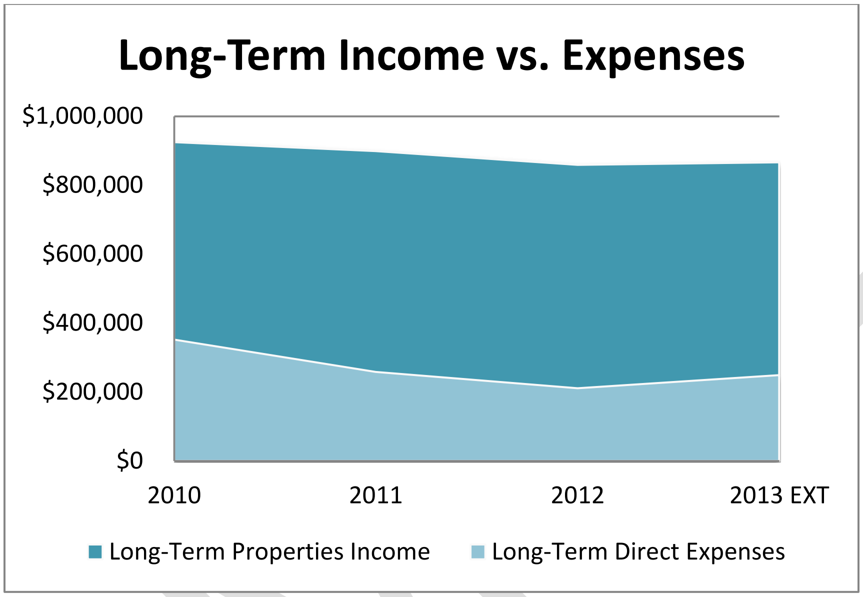


The higher revenue items (illustrated below) have been segmented for the sake of comparison. In total, the high revenue items sustain a high value despite conservative estimates for 2013, projected to sufficiently cover operating expenses and to pay down debts.



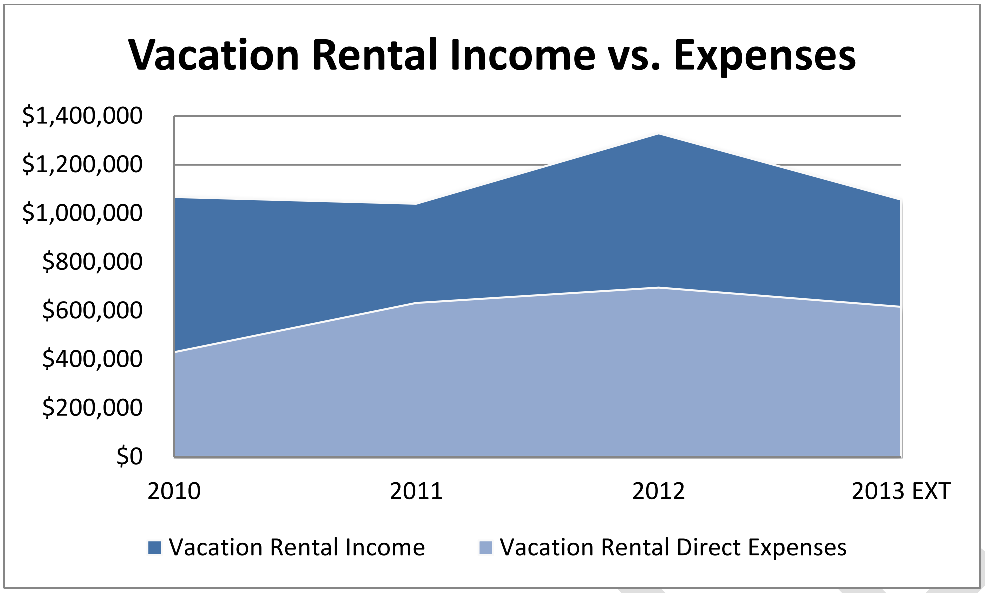
* Revenue as of March 2013 YTD multiplied by 4 for '2013 EXT' projection and averaged it out with previous 3 years of data. This is a *very* conservative estimate being that the trend for revenue growth in previous years is 5%.

Long-term Management properties are the company's second largest source of income. Due to substantially lower management costs, Long-Term Management has and should continue to be quite profitable. In fact, when layering expenses to costs with the cost benefit analysis of each, G³ will recommend that NEWCO focus on Long-term Rental income as a greater source of revenue.

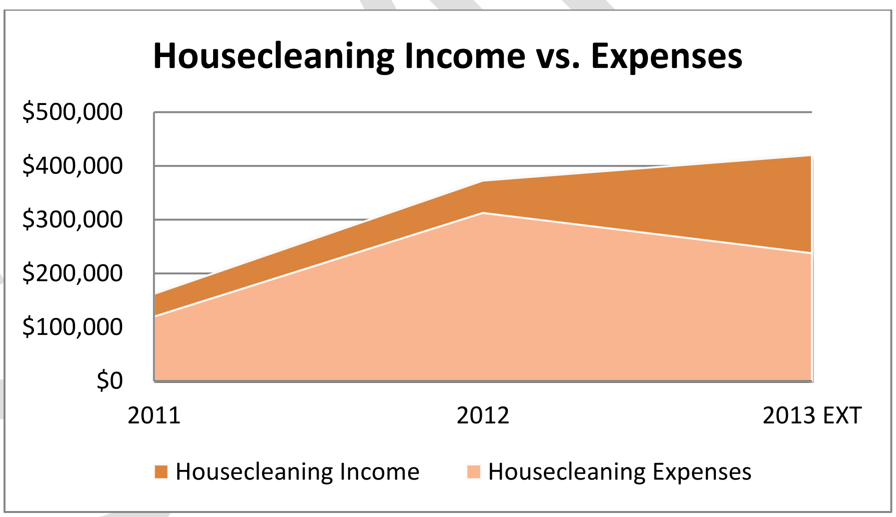


Expenses for Long Term Property management are averaging only 30% of revenue, therefore making this component a source of higher net profit; (38% in 2010, 29% in 2011, 25% in 2012, 29% in 2013).

Expenses for Vacation rentals were 40% of revenue in 2010, 61% in 2011, 52% in 2012, and are projected to be around 58% in 2013. Even with the inclusion of Concierge Income and Expenses, this ratio of expense to income remains stable despite efforts to specifically grow Vacation Rental income.



Since being incorporated into the business in 2011, Housecleaning Services have become a rising generator of cash flow for the company. However, it has not come without a cost. The company has spent 74% of housecleaning revenue on Housecleaning expenses when it moved in house in 2011. In 2012, that expense increased to 84% but is projected to decline to 56% of revenue in 2013.



The more efficient the company becomes at spending in this category, the more revenue Housecleaning should generate. Paying for a third-party service was a substantial expense. Thus Housecleaning Services were identified as an area the company needed to provide in-house to reduce overall costs. Despite the lack of clear evidence on the reduction of expenses, it's assumed that this revenue source will be successful.

Because sales from referrals ("Sales/Referrals") vary widely from year to year, its total revenue cannot be accurately predicted.

Conclusions

Seeing a conservative but certain rise in overall Revenue, the company is safely growing each year with the inclusion of new revenue sources and the monitoring and minimization of expenses. G³ reviewed each revenue source and conclude the following:

1. As stated above, although Vacation Rentals are the clear leader in generating income, Long-Term Rentals (including Lease Only Properties and Commercial Properties) require only an average of 30% in total revenue to cover expenses. Though Vacation Rentals generate the greatest amount of cash flow for the company, the expense to deliver that service is an average of 53% of all revenue.
2. Housecleaning Services seem to be a rising star in generating income since 2011. As time goes on and operations and spending become more efficient, this seems to be a great opportunity for increased revenue for NEWCO. Perhaps a housecleaning suite of services can be offered to all homeowners and renters in Pax Valley, Tierra Vista and Mountain Town, not just those currently contracted with NEWCO.
3. The expense for Long-Term Rentals also includes the amount paid for Lease Only Properties and Commercial Properties.
4. Without the data on the cost savings from the addition of in-house Housecleaning Services, it is assumed that this revenue source will become a great asset to the company. Although the cost to run this area of the business requires expenditure for direct labor and materials, it is understood that it will become an increasing income generator.
5. Sales/Referrals are demonstrated as very highly variant in their ability to produce revenue. This component may be best associated with advertising and customer service expenses. Because it is presently not attached to any COGS, it is difficult to track where referrals are coming from without its connection to a specific action.

Recommendations

1. Long-Term Income properties should be a primary focused for increasing revenue. Based on the steady income produced by this source and the minimal expenses built into current operations, it seems clear this is a great opportunity for increasing profitability.
2. Due to the way the revenue for Long-Term listings is recorded it would be best suited to combine "Lease Only Rental Income" and "Commercial Income" (not exactly sure what is being expressed there.)
3. Housecleaning services should be considered as a service to provide independent of its connection to NEWCO-owned Vacation Rentals. This service may have the ability to be provided as its own entity, without having to rely on clients who only interested in having their homes managed by NEWCO, but homeowners or renters who could benefit from a professional housecleaning service.

Perhaps by adding Housecleaning services as a separate branch of NEWCO, additional clients such as businesses or homeowners could be attracted. As NEWCO is aware, there are many privately-owned properties in Pax Valley, Tierra Vista and Mountain Town that clients may not want to list for rent. However, these are potential clients who might eagerly utilize a housecleaning service. The opportunity in this market should be considered and researched further.

4. Sales/Referrals Revenue may be best integrated with Advertising and Marketing costs. One of the Marketing department's goals is to have a dedicated budget allocated to their function. The COGS could be reconfigured to include a line item for 'Marketing/Referrals' in relation to the return on the investment and other income generated in this category. Based on the Navis system and its ability to monitor the result of every marketing activity, revenue coming in from marketing could be generated back into the Marketing department based on a percentage basis of revenue generated back into the company.

Financial Area Bar	KPI Performance
	4

2. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

This metric provides the company a quantifiable measure of operational profitability given all of its assets, products and services. All interest payments, tax, depreciation and amortization entries on the firm's income statement will have been reversed out of the annual gross income of the company, therefore enabling accurate comparison of the company's profitability year over year.

Objective

By identifying EBITDA, the profitability (or net cash flow) of the company can be determined. It also demonstrates the firm's ability to manage liabilities and other obligations such as debt.

Investigation

EBIDTA is calculated by using the following formula:

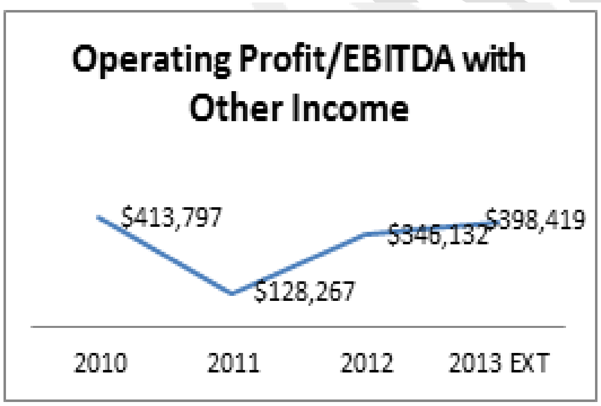
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA or Operating Profit) = Total Revenue – Operating Expenses
    - Operating Expenses = SG&A + COGS

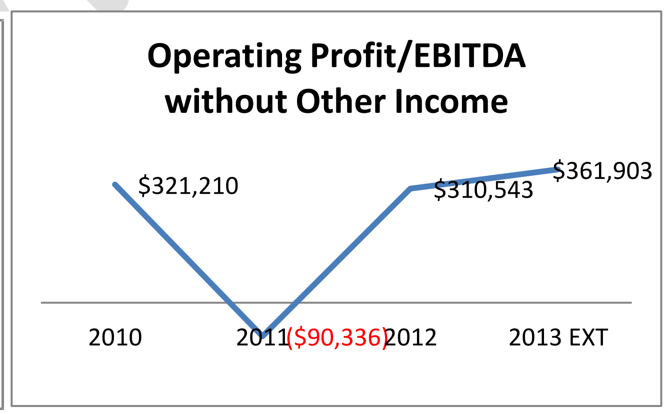
The decline in EBITDA is due to the removal of the income stream "Other Income" due to the tax breaks, intercompany payments back and forth, stock sales and other miscellaneous cash flow into the company. The "Other Income" amount in 2011 was up to $218,603, covering all expenses and inflating revenue despite it being a non-recurring income base. Therefore when this revenue stream was eliminated, accounting solely for monitored and recurring operational income, EBITDA suffered greatly. However, with the addition of the "Other Income" source, EBITDA becomes $128,267.

For analytical purposes, "Other Income" was removed based on its lump sum nature of miscellaneous funds that cannot be anticipated annually. However, it did contribute to the overall financial performance and must be recognized for the low EBITDA in 2011.

Observations

EBITDA dropped significantly in 2011 due to the removal of "Other Income". That event aside, the company is operating at a net profit which is projected to continue to increase annually. However, it is to be noted that the company should not rely on "Other Income" as a buttress for revenue to cover expenses. Although the average "Other Income" from 2010 to 2012 is $114,593, the CFO has recognized that this income is unreliable and should not be accounted for as a consistent revenue stream. Therefore, when evaluating the company, we have removed this source from the calculation of the operational revenue because its effect appears to be an artificial inflator of profit.





The trend in EBITDA in the past two years demonstrates a 17% increase and it seems this trend will continue without the growing pains of including new revenue streams. Because 2011 takes EBITDA trends so far out of the spectrum of regularity, our assessment focuses on 2012 to 2013.

The 2012 to 2013 EXT trend in EBITDA is a clear rise as the company gets acquainted with its COGS and SG&A expenses and should remain strong with the inclusion of the Housecleaning and Concierge revenue streams.

Conclusions

EBITDA has grown in the past two years, indicating a tread of steadily decreasing or flat trend spending juxtaposed with increases in revenue. While the estimate for 2013 EXT is conservative, EBITDA is expected to continually rise, therefore injecting more operational cash flow into the company.

The profitability of each of the six revenue generators is on the rise (Long Term Management, Commercial Rental, Vacation Rental, Sales/Referrals, Housecleaning and Concierge), barring the seventh, Lease Only Rental income. However, because there are no direct costs associated with this revenue stream, (rather they are associated with Long-Term Direct Expenses), the revenue gained is considered strictly profit.

Recommendations

As spending becomes more efficient for the more recently introduced revenue streams, such as on Housecleaning and Concierge services, EBITDA should continue to rise. One of NEWCO's explicit goals is to gain large Net Operating Income numbers and has incentivized the CFO, CMO and COO to hit this goal by increasing their shareholder percentages in the process. With that incentive based on current projections, EBITDA is expected to continue to rise.

1. In 2011, when EBITDA dropped drastically without the inclusion of revenue stream "Other Income", it can be concluded that the figure should be removed as a specific revenue stream the company can rely on. Rather, it should be accounted for a non-operational income received that can only improve the company when it is there. For this assessment, it was removed; therefore illustrating to NEWCO that in years where COGS and SG&A spending associated with Operations that get out of budget can be detrimental to the company without greater controls on spending.
2. In 2011, Vacation Rental spending was 61% of revenue, not including administrative expenses to run this operation. Without factoring in the ins-and-outs of spending to returns, spending should be modeled as such based on historical gains and losses. That said, spending on Vacation Rentals should never exceed 60% of profit. In areas such as Housecleaning, it is approaching 50% as the efficiency of spending becomes more effective.

FINANCIAL AREA BAR 4

3. As discussed in the Revenue section, Long-Term Rental efforts to acquire properties to rent and lease for both commercial and residential needs should be increased. The cost to produce this service is lower than any other Revenue generator (30% of expenses come from revenue), excluding specific administrative costs, and can be focused on as a huge opportunity to increase Operating Income.

3. Selling, General and Administrative Expenses (SG&A)

G³ evaluates the sum of all direct and indirect costs related to operating expenses that have been reported. The areas of SG&A classifications are broken up to various categories and are then evaluated against revenue and other measures to evaluate company expenditures.

Objective

When SG&A costs are identified, these numbers are measured against revenue gained and spending improvement initiatives can be identified. Healthy SG&A practices provide a standard measure of the company's ability to do business without high operating costs.

Investigation

SG&A calculates all expenses as they relate to general operations. We took liberties in categorizing certain line items to suit our categorical needs. Various numbers, such as IT – hardware and software were placed in Equipment/Computer expenses. While IT- web developer was categorized as Professional Services.

2010 data is particularly sparse breaking down the costs of more specific categorical items and has therefore been subjected only to its lump sum contribution to the overall SG&A trend. The data is generally more specific from 2011-2013 and continues to be more specific to certain areas.

It has been learned through conversations with the marketing department that some of the Advertising and Marketing costs may be labeled through Warranties, Licenses & Dues, along with some of the IT and Web designing costs through Professional Services. With that understanding, many of the Marketing expenses are dispersed throughout SG&A without a clear line of distinction of what Marketing truly costs.

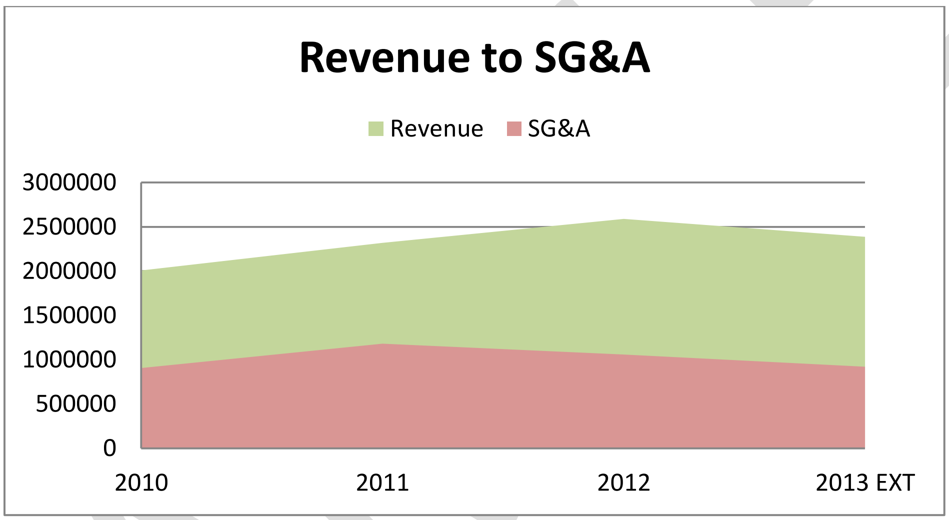
Observations

SG&A typically accounts for 40-50% of total revenue and has various opportunities for reduction; (45% in 2010; 51% in 2011; 41% in 2012; 39% 2013 EXT).

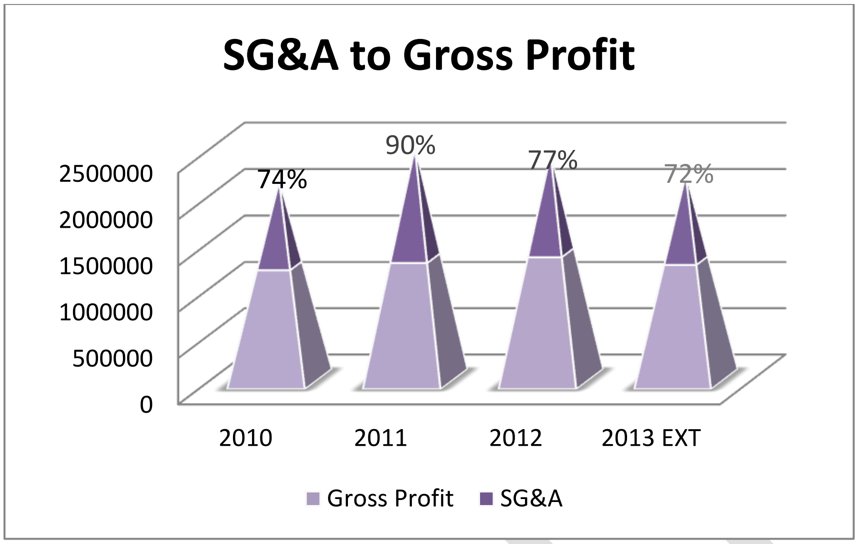
	2010	%	2011	%	2012	%	YTD 2013	2013 EXT	%	Trend
SGA	$905,884	100%	$1,180,915	130%	$1,058,271	90%	$254,784	$920,716	87%	102%

As expected, the highest SG&A cost is in regards to general costs of Salaries, Wages, Payroll Taxes and Fringe Benefits. These costs account to up to 60% of all SG&A. Without knowing the allocation to certain endeavors, there is difficulty understanding any inefficiency with personnel performance. However, because personnel expenses for professional services companies generally account for 60%, the current threshold of spending is no cause for alarm.

Demonstrated below shows Revenue to SG&A and the amount in which SG&A consumes of earned revenue. This chart shows the company has attempted to control spending since 2011, although the aim would be to cut down spending further.



When all COGS expenses are also removed from Revenue, SG&A accounts for 72-90% of company expenses. That said, COGS appears to be relatively tame expenditures, although it is unknown as to what direct expenses may be labeled incorrectly that fit into the SG&A category, such as licensing for software specifically related to one of the revenue streams or perhaps a marketing cost.



The major expenses of SGA in the property management segment are around the following:

Following Salary & Wage expenses ($387,733), the top five (5) expenses under SG&A in 2011 were:

1. Rent, Leases and Mortgages - $179,860
2. Payroll Taxes and Fringe Benefits - $103,208
3. Professional Services (IT, Legal, etc.) - $96,872
4. Insurance - $50,837
5. Telephone, Cell phones, Internet - $44,761

In 2012, the top five (5) expenses following Salary and Wage expenses ($415,648) were the following:

1) Rent, Leases and Mortgage - $158,660
2) Payroll Taxes and Fringe Benefits - $106,337
3) Employee Benefits - $68,775
4) Telephone, Cell Phones and Internet - $49,168
5) Insurance - $50,837

A lessor expense, but one that is on the rise, is the cost of Travel, Meals and Entertainment. This indirect expense accounts for over $23,000 annually in both 2011 and 2012. This expense will be crucial in monitoring so as to ensure spending of this kind is monitored and does not increase substantially.

Conclusions

1. SG&A accounts for an average of 80% of all company expenses when compared to Gross Profit, therefore leaving only 20% of revenue for operating income. Therefore,

focusing on reorganizing and finding areas to eliminate SG&A expenses will be recommended as a targeted goal for the company.

2. Likely because of additional hiring, salary and wages, benefits and payroll taxes, and fringe benefits rose from 2011 to 2012. The amount of each is a significant portion of funds and can be looked at for opportunities to rebid benefits packages for more inexpensive or value options for employees. New healthcare standards have offered companies many opportunities to change benefits plans and this can be focused on for exactly this opportunity to cost-save and find better alternatives for companies.
3. Travel, Meals and Entertainment is a significant expense and spending in this area can be reduced significantly. Currently each service division is provided a credit card for meals, travel and expenses. The P&L balance sheets show that in 2011 and 2012, the company spent over $23,000 on meals alone. They have budgeted only $5000 annually for meals with employees for performance review "one-on-ones". These meal expenses go vastly out of budget for SG&A expenses.
4. Current SG&A monitoring entails checking receipts and credit card expenses for any outrageous charges and raising a flag when anything looks out of the ordinary. This plan suggests that the accounting department and service department heads must use their own good judgment to ensure that spending remains in control and uniform to standard spending practices. There is no explicit spending or budgeting system for SG&A expense monitoring.

Recommendations

1. SG&A should be reorganized to exclude expenses directly related with COGS endeavors, such as licensing fees, marketing costs and other expenses that may be directly related to a certain service. Allocating these fees, especially as they relate to salaries and wages will help the company to understand how to gain greater control within the service-specific area and therefore SG&A.
2. If the company focused on eliminating expenses only by .05%, it would be equivalent to saving an average of $52,417 annually; (based on data from 2010-2012). This strategy could be incredibly helpful in monitoring funds and cutting down on expenses.
3. Part of reducing expenses in SG&A is to reduce cost of meals. As a portion of reaching the .05% reduction in expenses, a good portion could come from reducing spending on Meals for the company. The company has budgeted $5,000 annually on meals, but spends 460%+ more on meals than budgeted. Reducing or controlling spending on meals is, in part, one strategy for reducing SG&A and ensuring cost is controlled.
4. Current SG&A cost monitoring strategy is to use good judgment to approve spending or alert accounting on outrageous or egregious costs that should not be on the statement. One method should be to set a spending limit on SG&A costs by its spending category to ensure the costs that can be controlled are monitored by amount of expense and volume of charges. Focusing aggressively on controllable expenses will help the company save on unnecessary costs.

The environment and structure for creating a SG&A cost system will happen through a comprehensive communications and leadership team spearheading the process of first identifying what to focus on for the highest value generated. An assessment across-the-board for what can be reduced or where opportunities lie is recommended. Every opportunity must identify the areas where saving and improvements are applicable. For every expense, a baseline of performance should be identified followed by how much the cost-efficiency can improve. Scrutinizing each of these opportunities is absolutely necessary in order to understand the best option for implementation.

One such planning matrix can structure SG&A expense cutting potential.

Establish baseline ➤	Identify Opportunities ➤	Recommend improvements ➤	Develop Action Plans
Key Steps			
▪ Understand value drivers ▪ Establish baseline ▪ Train team ▪ Develop hypotheses ▪ Understand ongoing initiatives	▪ Review Organization ▪ Review key Assets ▪ Review Controllable expenses ▪ Review key processes ▪ Review ongoing initiatives and key processes.	▪ Short –term opportunities ▪ Long-term opportunities ▪ Performance targets ▪ Redesigned organization and key processes ▪ High-level validation	▪ Development implementation plans ▪ Develop Communications plans
Key Components			
▪ Kickoff and training ▪ Baseline staffing and expenses ▪ Project schedule ▪ Interview Schedule	▪ Interview findings ▪ Hypotheses and improvement concepts ▪ Internal and external benchmarking and best practices	▪ Proposed organizations ▪ Improved processes ▪ Controllable expenses reduction	▪ Implementation plans ▪ Measurement and control systems

Source: Deloitte Touche Tohmatsu Limited, 2004.

G^3 offers comprehensive services on devising the plan and implementing it. Interest on project planning and implementing from G^3 can be arranged with the Business Advisor in the Pax Valley area.

FINANCIAL AREA BAR

KPI PERFORMANCE

3

4. Liquidity, Profitability and Leverage Ratios

Certain ratios give a great descriptor of activity within the company as it relates to other activities. Six such ratios will be calculated in this section given the financial data the company provides. The six ratios G^3 hand-selected as crucial measures of value in the interest of the buyer, investor or owner are the following:

Liquidity Ratios

- Current Ratio—is used as a variable throughout financial reporting and is considered the most crucial variable is ensuring the company's current asset value can cover the value of all current liabilities.
- Quick Ratio—or "Acid Test Ratio," is only different from the Current Ratio in that it does not include inventories as a factor of total current assets. Quick assets include current assets that have the likelihood of being quickly converted to cash at close to their book values.
- Net Working Capital—is a measure of cash flow, operating liquidity, and it demonstrates a company's ability to cover its financial obligations (Total Current Liabilities) in the short term. A company with a ratio greater than 1 will have positive net working capital and it can meet its short term obligations.

Profitability Ratios

- Net Profit Margin—describes how much money is generated for every dollar spent on business expenses and taxes.
- Return on Equity—measures the revenue of the company in relation to the Shareholders' Equity in a single year. Return on Equity describes how well contributions from stockholders generated earnings for the company.

Leverage Ratio

- Debt to Equity—compares a company's Total Liabilities to its Shareholders' Equity. This allows the company to determine how many suppliers, creditors, loans and obligors are committed to the company.

Investigation

After receiving all Balance Sheet and Income Statement information, the following equations were used to produce the given ratio:

- Current Ratio = Current Assets / Current Liabilities
- Quick Ratio = (Current Assets – Inventories) / Current Liabilities
- Net Working Capital Ratio = (Current Assets – Current Liabilities) / Total Assets
  - Working Capital = (Current Assets – Current Liabilities)
- Net Profit Margin = Net Profit / Revenue
- Return on Equity = Net Profit / Shareholders' Equity
- Debt to Equity = Total Liabilities / Shareholders' Equity

Observations

Below is a chart demonstrating the trend in ratios from 2010 to 2013 EXT.

Liquidity, Profitability and Leverage Ratios	2010	2011	2012	YTD 2013	2013 EXT
Current Ratio	0.9	0.8	0.7	0.1	1.0
Quick Ratio	0.44	0.78	0.73	0.13	0.97
Net Working Capital Ratio	-0.03	-0.11	-0.15	-1.58	-0.01
Net Profit Margin	$0.05	-$0.12	$0.05		-$0.22
Return on Equity	-638.0%	128.0%	-75.9%	747.9%	401.7%
Debt to Equity	-17130.5%	-1385.2%	-1508.4%	-3889.0%	-1905.9%

Liquidity Ratios (Current, Quick and Net Working Capital ratios) demonstrate the liquidity of the firm, or the ability to measure what the company's value would be if it was to be sold at any given point from that moment.

The Current Ratio has been trending as less than one for the past three years, with the hope that it stabilizes by 2013 to 1.

Quick Ratio does not apply in this circumstance because the company does not own the property or inventory it manages.

Net Working Capital has been trending in the negatives for several years, showing the company has been investing in assets quite liberally. Being that the net working capital is negative, the company is showing that it is operating solely based on its lines of credit and/or notes payable. This practice is one that the company hopes to resolve as immediately as possible.

Profitability Ratios—shows how able the company is in generating revenue against operating expenses and other liabilities.

Net Profit Margin keeps a fluctuating amount of money for every dollar spent. For every dollar spent, the company has been operating on a few cents, ($0.05 at its highest in 2010 and 2012, and -$0.12 at its lowest in 2011), for every dollar spent. NEWCO only operated at a loss in 2011, it picked up its value in the past year (2012) proving it will likely improve the net profit margin for 2013.

Return on Equity has fluctuated vastly in the past four years, starting at -$6.38 in 2010 recovering up to $4.03 by the end of 2013 EXT. Shareholder contribution has likely helped stabilize funds in years where equity was positive, but the high variance makes it difficult to predict a steady trend on the equity returns.

The Leverage Ratio utilized for analytical purposes is the Debt to Equity Ratio, demonstrating the company's financial health as it relates to its debts.

Debt to Equity Ratio shows the company may not be able to fulfill its financial obligations, although the company has Done so and has been able to cut down large notes payable as one approach. Should this number grow, however, investors will find it increasingly risky to invest in this company.

Conclusions

Current Ratio—a current ratio less than one demonstrates that the company is presently unable to pay back its short-term liability obligations. The company appears to not be utilizing its current assets properly or working capital management may need improvements because the current ratio indicates that the company's liquidity does not meet current liability obligations. Although this is dangerous, it is not always fatal. It shows that the firm has good long-term prospects and it is relying upon their future endeavors and hopes of liquid gain to meet current and future demands. It is borrowing money against the prospect of growth to meet current obligations.

Because the ratio itself shows some obvious variance year to year, there is no clear trend as to whether or not the company can pay off its debts in the near future and will carry these debts for years to come before they can approach a comfortable threshold of liquid assets to reach short- and long-term obligations.

The Current Ratio shows the company is in a complex game of borrowing and meeting obligations that come with it. In short, the company needs to make significant efforts to cut down liabilities.

Net Working Capital—is operating negatively, however the trend is showing debts decreasing, demonstrating an increase in capital as time goes on. The company currently has insufficient funds to meet operation expenses and any short-term liabilities and has been operating solely upon its lines of credit to survive since the large acquisition in 2011. As they pay down their debts, the company will acquire better net working capital.

Net Profit Margin—with continued control on spending, the amount of profit is hopeful for a rise. Following standard trends and looking at the past performance, the fluctuation is solely dependent upon how much of revenue goes to depreciation, interest and taxes. Over time, these expenses are expected to rise with as revenue is expected to rise, so strategies in revenue generation should cover any of these percentages of revenue targeted at ongoing, indirect expenses.

Return on Equity has been by the most frequent fluctuating ratio of all in that it has gyrated from -$6.38 and hopes to be back up to $4.02 by the end of 2013 EXT. Since the company's main purpose is to maximize the use of the stockholder's equity and all but one of the stockholders work within the company, efforts have been set on keeping the company afloat. Therefore, in years where rise in equity returns were felt, G^3 learned the money went directly back into paying off debts. As net profit rises, returns will provide more for continued use to pay back down debt.

Debt to Equity, as the CFO put it, "makes no sense". The ratio is demonstrated as -1508.4% in 2012 and has been only marginally different from that point. In short, the equity of the company suffers tremendously because the company is suffering the cutting down of debt. All equity that would go to shareholders goes immediately back into paying off debt. Since all shareholders (but one) work directly for the company, they are not as concerned with this figure as debt is decreased. However, any new shareholder would not want to take on such a debt.

Recommendations

As stated above, the Ratios demonstrate the company is unbalanced where it comes to assets juxtaposed with liabilities. This is centered on the decision to acquire of their competitor in 2011 for a total of $1.1 million, purchasing each of their listed properties at $6,000.

Liquidity Ratios

Current Ratio—based on the debts sought out to be removed from the balance sheet, the company would best to be focuses on eliminating any current liabilities it can in the near future. It is already a goal of the company to pay off all long-term liabilities in the next six years, however the current liabilities should be focused on for limiting all spending in the short-term. Loans payable are significant in the short-term. Although the company has a continued track record of paying their bills on time and without fail, there should be significant effort taken to focus on cutting short-term liabilities.

Net Working Capital—the immediate need is to resolve debt problems and work toward having a net working capital ratio total of 1.2-2.0, demonstrating NEWCO will be able to invest money back into the company for further growth. Since the company is a professional services company, and they are looking to increase the size of services provided, and revenue has been increasing steadily, the company's net working capital should increase. As stated above in the discussion regarding cutting current liabilities, the same holds true for increasing net working capital.

Profitability Ratios

In the course of one year, the company is showing its ability to generate revenue as its **Net Profit Margin** gradually increases into positive numbers. In 2012, the company was able to earn $0.05 on every dollar it spent. As cost cutting strategies for SG&A and greater organization of direct expenses happen as it relates to COGS, the company should continue to see greater net profit on every dollar spent. We caution against any decrease in net profit as time goes on, being that it will affect the profitability margins of the company annually.

Return on Equity will perform in the negatives until debt is paid down. The continued practice of paying off all debts until equity hits $0 and then rises into positive returns is both conservative and consistent with what G^3 would recommend to focus efforts on at first glance. We project that the company will have a positive return on equity by the end of 2013 EXT and every dollar earned in equity should go toward paying back debts.

Debt to Equity is only a major concern because the company is paying down debts for the next six years and is operating on negative equity until debts are decreased to a point where shareholders can see a positive return on their investment. Again, practice should continue to decrease all long-term liabilities within the six year timeframe or sooner.

FINANCIAL AREA BAR | KPI PERFORMANCE 2

5. Direct Costs of Goods and Services

Direct Costs can be directly associated or identified with materials, labor and expenses directly related to the production of the product or the provision of specific services. They must be *fundamentally* linked to providing this service or product in order for it to be a direct cost.

Objective

Identifying the direct costs from all other costs will demonstrate the costs attached to a particular service or product, therefore demonstrating the minimum or maximum of necessary funds needed to produce that item.

Investigation

COGS is broken down into four different categories based on the company's income generators:

- Long-term Direct Expenses
- Vacation Rental Direct Expenses
- Housecleaning Expenses
- Concierge Expenses

In the data received, the company does not factor out line items "Direct Labor" and "Materials" separately for each of these line itemed expenses or as they relate to the overall cost of direct expenses. They are aggregated as a lump sum into the overall cost.

After looking at a Direct Labor report for April 2013, the estimated cost of labor and the other, miscellaneous costs for each area is the following:

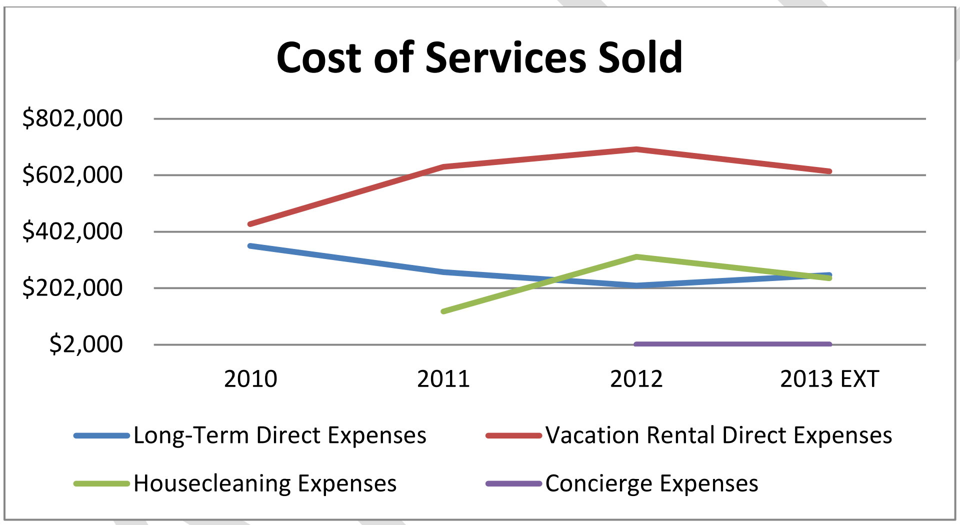
- Long-term Direct Expenses – roughly 95% of direct expenses are for Direct Labor. 5% for materials, etc.
- Vacation Rental Direct Expenses – roughly 66% of expenses are for direct labor. 44% for materials, etc.
- Housecleaning Expenses – direct labor is composed of hourly and full time personnel, making up roughly 74% of housecleaning expenses. 26% of expenses are on materials, etc.

COGS does not delineate *any* expenses for the following revenue generators: 1) Lease Only Rental Income; 2) Commercial Rental Income; and 3) Sales/Referrals Income.

Observations

As is atypical of a professional services company, NEWCO links direct expenses to a COGS account, despite not selling specific, tangible products; they have organized revenue streams and expenses as such. This is a clever means of breaking up Cost of Services Sold and should henceforth be treated as such when "COGS" is used.

At present, the COGS expenses do not get distributed on a finite budget plan. The following graph depicts the trend in costs for the various categorized expenses. As demonstrated, most of the trends are to see the costs decrease or flatten out over time.



COGS expenses are relatively tame and easily covered by revenue gained. Conversely, not all services are providing equal revenue and not all COGS are as expensive as others. For instance, the COGS required for Vacation Rentals is a very high percentage of revenue earned and should be looked at for the return on investment annually.

Conclusions

1. Because NEWCO does not manage the Property Management side on a standard budget plan for COGS, without a budget, there can be no true distinctions made based on spending trends versus budget intentions. Acting accordingly, priority number one would be to build a budget for each area of COGS based on all annual/quarterly/seasonal intentions for each area based on the annual data of spending for years past.
2. COGS spending shows a fair amount of discipline despite a specific budget in that it has not risen at any alarming rate and is becoming relatively flat in most areas. Based on the direct expense for each service provided thus far, expenses relative to revenue received to can act as a gauge for future spending.

Conclusions

3. Because NEWCO does not manage the Property Management side on a standard budget plan for COGS, without a budget, there can be no true distinctions made based on spending trends versus budget intentions. Acting accordingly, priority number one would be to build a budget for each area of COGS based on all annual/quarterly/seasonal intentions for each area based on the annual data of spending for years past.
4. COGS' spending shows a fair amount of discipline despite a specific budget in that it has not risen at any alarming rate and is becoming relatively flat in most areas. Based on the direct expense for each service provided thus far, expenses relative to revenue received to can act as a gauge for future spending.

Recommendations

1. As stated in the conclusion, one priority for the property management vein would be to build a COGS budget plan based on all direct expenses related to running a specific service. For instance, if Long-term property rentals COGS also encompass expenses for Commercial properties and Lease-only properties, any cost related to those areas should be distinguished, including the amount paid for specific needs in marketing, direct labor, fuel costs for travel to and from locations, other overhead and other materials. If each was distinguished from the other, building budget plans will be more specific and easier to manage based on organization.
2. G³ recommends taking COGS organization of direct expenses a step further, to also delineate any direct expense to its respective COGS area. For instance, marketing, software, professional services, and other direct expenses should be to be subject to the specific COGS area it is related to. An umbrella term can be 'Overhead' or 'Materials', but it will allow for a direct budgetary line for expenses as they relate to a certain COGS area.
3. All COGS should be reviewed specific to direct cost attached to a certain endeavor.
4. Without understanding where specific COGS costs lie for each service provided, a separate investigation will have to take place for the line items in that section. We recommend a more thorough investigation of these areas in order to get a better handle on how expenses are distributed relative to revenue.

FINANCIAL AREA BAR
KPI PERFORMANCE
3

6. Payroll Ratios

Payroll Ratios provide an analysis of payroll costs against other expenses, demonstrating what potential enhancements can be made based on those costs. Payroll measured against several variables, one being revenue, facilitating the holistic understanding of how well the company is performing.

Objective

To ensure the productivity and financial success of the company is exceeding or maintaining that of all payroll expenses incurred.

Investigation

Payroll Ratios utilize the following equations to make an assessment:

- Total Payroll = Direct Labor + Salaries + Wages + Commissions
- Direct Payroll Ratio = Direct Labor / Revenue
- Indirect Payroll Ratio = (Salaries + Wages + Commissions) / Revenue
- Total Payroll Ratio = Total Payroll / Revenue

These ratios demonstrate how payroll expenses are distributed as related to the delivery of the services and cover other administrative needs for running the company. Direct Payroll has been eliminated from the discussion due to the lack of data on any direct labor costs as associated with each of the COGS (Vacation Rental Direct Expenses, Long-Term Direct Expenses, Housecleaning Expenses and Concierge Expenses).

Observations

G³ evaluates Indirect Payroll and Total Payroll Ratios for the investigation of this Key Performance Indicator.

Payroll Totals*

		2010	%	2011	%	2012	%	YTD 2013	2013 EXT	%
Payroll Total		$363,266	100%	$411,566	113%	$417,587	101%		$468,672	112%
Multipliers										
Direct Payroll Ratio		0%		0%		0%		0.00	0%	
Indirect Payroll Ratio		0.6%		18.5%		16.1%		18.1%	20%	122%
Total Payroll Ratio		18%		20%		16%		0%	20%	

*Payroll Totals are inconsistent with inclusion of all employees on payroll. The structure of financial data delineates all expenses in a given expense category to which includes payroll totals within that category. Therefore, the data received is based solely upon administrative staff and their respective payroll expenses.

Indirect Payroll costs involve all payments issued to the human capital onsite. The total cost of payroll for the company varies between 16-20% of total costs, and comes up as the #1 SG&A operating expenses, as expected. However, based on the way the financials are organized, the holistic cost of payroll is actually lumped into various expenses that are described by the umbrella over them. For instance, the Advertising department has two full-time employees whose time is dedicated solely to improvements to the quality of advertising, media and another that only works with client relations. The cost of those services is lumped into the cost of advertising, not that of payroll.

Therefore, it is difficult to segment payroll costs (likely the most expensive of all costs) from the rest of the expenses that exist. As stated previously, the information reported on the payroll matrix only accounting for administrative staff on payroll *not* all staff on payroll. This lack of inclusion provides a greyer area around total payroll costs.

As described by the COGS description in the previous category, the following remains true for payroll candidates:

- Long-term Direct Expenses – roughly 95% of direct expenses are for direct labor.
- Vacation Rental Direct Expenses – roughly 66% of expenses are for direct labor.
- Housecleaning Expenses – direct labor is composed of hourly and full time personnel, making up roughly 74% of housecleaning expenses.

Conclusions

Because NEWCO data was received as the summation of all expenses, including payroll, in one categorical area made it unfortunately difficult to draw specific payroll conclusions. Without the delineation each individual on the payroll categorized by their department or focus within NEWCO provides a lack of description of the return on investment of individual employees and their inputs and outputs. Many times, the human capital of contribution outweighs the cost of any expense, so they would benefit from being evaluated separately per each revenue stream. If employees give percentages of time to various revenue streams, they should also be categorized as such.

Overall, the expectation meets reality in that the majority of direct expenses for producing NEWCO services are coming from direct labor for each area of operation.

Recommendations

Because labor is so essential to each department of NEWCO operations, performance evaluations are crucial in order to understand the return on investment for each area in order to understand a greater breakdown of how money is being allocated to employees in order to generate an expected return. A set course of expectations for each revenue generator per employee can help inform NEWCO of how well employees are compensated based on the income they generate for the company.

Budgets for employee salaries should also be measured against the actual payroll dollars spent. Since no budgetary information was provided in this area, this will be a crucial area for building a budget in order to ensure that direct labor costs stay within budgeted limits.

7. Accounts Receivable

Accounts receivable assesses the process and outcome of pursuing and obtaining outstanding monetary credits that are owed to the firm based on the sale of products or services to clients.

Objective

By identifying the process and outcome in which how the company pursues obtaining money owed to the business, these outstanding assets will provide a measurement of how much money sales have generated, how much it has received for goods or services and the amount of money owed given a certain time period; (likely measured based on a net 30 day period).

Investigation

Reviewed all AR summary data and processes from CFO. AR consists of 3,000+ tenants dealt with annually in the form of those renting vacation homes or renting/leasing longer term spaces both commercial and residential.

Long-term, Leased properties procedure on Collections:

"Whenever a tenant fails to fulfill his/her financial obligations of the lease, it is important to demonstrate to the owner that we are looking out for his/her interest by trying to collect the outstanding charges that the tenant still owes after applying the security deposit to the total charges. These are the procedures to be used to collect the outstanding charges.

1. Send out security deposit package to tenant with request to have him/her send a check for the full amount or contact us to determine a payment schedule.
2. At the same time, send a copy of the security deposit package to the owner with a letter asking for permission to send the tenant to collections if he/she doesn't pay within 60 days.
3. After 30 days, if the tenants haven't complied with the request, send another letter saying that if we don't receive the entire amount outstanding, the account will be turned over to collections.
4. After 30 more days, if there has been no response from the tenant and the owner has agreed to it, turn the account over to Collections."

For owners who utilize NEWCO to manage long-term properties, the procedure is the following:

1. Homeowners fund their account through a trust. The trust account goes through NEWCO's bookkeeping. There are both tenant accounts and owner accounts and utility fees are managed through this program.

2. There is a direct split of every check received, while 8% goes to the owner and 10% goes to NEWCO for the management fee plus gross receipts tax cost is removed.
3. All checks are sent to the bank and paid out in pieces for homeowner disbursement based on commission received for rent and so utilities get paid on the owner's behalf.
4. Deposits go into *QuickBooks* and accounting processes all payroll amounts out of the remaining totals and accounts for NEWCO's commission.

Vacation rentals AR is composed of the following procedures:

1. When the client books a vacation property, NEWCO receives 50% of the total cost of renting the property the day of the booking. The client has up until 60 days prior to their stay to cancel their reservation for a full reservation.
2. At 60 days prior to the client's stay, NEWCO receives the other 50% of the cost of the property. If they do not pay or cancel, NEWCO keeps the initial 50% deposit. If the client cancels within 60 days prior to their stay, NEWCO keeps their payment.

The CFO has noted that there is no Bad Debt nor is there any problem with aging AR. Because most of the rent money is collected prior to the stay, there is relatively no problem with any AR discrepancies on Vacation Rental rent payments.

The Long-Term Rental agreements and rent regulations are governed by the New Mexico Real Estate License Law and Real Estate Commission Rules. Since these areas are sanctioned by the government for compliance, the assumption, without understanding the depths of the regulation, is that NEWCO is in compliance.

Observations

Aging summary provides that within the Real Estate vein of NEWCO, G^3 recognizes one outstanding payment in March of 2013 for $5284.96 within the 1-30 day timeframe based on the data collected from four (4) clients. Because this is a standard deadline within capturing AR, this raises no objections. The question stands that based on the amount of clientele on the 2013 books, how many real estate clients do they deal with and what is the average AR balance they carry at any given point in time.

Property management has no outstanding balances to collect upon, which proves efficiency within the AR processes.

	2010	2011	2012	YTD 2013	2013 EXT
Accounts Receivable (Debtors)	$59,803	$14,294	$44,864	$5,285	$29,740

One disgruntled client who listed a property with NEWCO wrote a review on *Yelp* saying:

> "I contracted with NEWCO Property to manage a condo for me. I have had on going issues with the accounting dept. and the day to day management. I was disappointed in the condition I

> found my property after NEWCO had managed it for me. I have paid for items that should have been the responsibility of the renter, security deposits have been refunded before utility bills and work orders were completed. NEWCO always blames the owner and has taken no [responsibility] for their mistakes. I would NOT recommend NEWCO Property Managment for anyone looking to rent out or rent property." – Delialah Q., Standardtown, NM

There have also been similar problems with the payments of the deposits in conjunction with the cleaning policy on rental agreements. Many customers on *Yelp* have voiced their concerns with NEWCO taking the deposits and not cleaning the properties. Another complaint stated the cleaning agreement upon moving out of a property is far too much to ask of the renter prior to moving out when the property they moved into was not in the condition they ask the property to be left in.

Escapia differs from *QuickBooks* as the AR collections resource for Vacation Properties. *Escapia* provides a credit card service to automate payments to NEWCO as it divides payments to pay them.

Conclusions

The current AR practices are in order and seem to provide a rigid formula of collecting rental fees from clients for each of the various rental or lease services provided. For vacation rentals, the policy of not posting revenue gains from AR until the client is actually staying with NEWCO, is a well-planned conservative method to ensure funds reflect the months in which clients are actually staying and keeps tabs on seasonal increases and decreases. It seems that the clients understand the system and are both compliant and receptive of the system. When 50% of the clientele return to continue to utilize the services, they are likely okay with the billing policy. However, the other 50% that are not repeat customers may have a different sentiment.

NEWCO believes in helping finance every deal with a client. However, the details proving how this actually works, in practice, are unknown. The assumption is that NEWCO helps finance rentals up until the date of stay, not after the fact. That said, there seems to be no problem with this practice, as long as all fees are collected prior to the stay. Other financing after the stay will likely be cumbersome for both owners and NEWCO to manage over time. Should financing be a part of after-stay possibilities, this practice will be cautioned against.

Escapia appears to be well-received by staff as a powerful enough software to manage AR for Vacation Rentals. A thorough investigation of this software will be recommended.

Any deposits that are collected for cleaning the property should be used for reinvesting into the property or should be refunded to the client. Based on the various complaints about cleaning practices and the unresponsiveness of NEWCO to discuss discrepancies concern G³ regarding the organization of collection processes on deposits and when inspections are Done to approve refunds to tenants. Likewise, the customer service practice of how complaints to accounting are responded to must also be addressed.

Recommendations

Accounts Receivable show that they are in order and there have not been many examples of any delinquency. As standard practice, NEWCO has a standard method in which it collects payments and finances deals. With every deal made (3000+ annually), NEWCO receives at least 50% of its payments up front prior to any stay in a listed property, so as to cover the possibility of a client backing out of their stay and the property not being advertised for future stay otherwise.

Conversely, the practice of collecting cleaning deposits with rental properties seems to be an issue for NEWCO in that many complaints have gone public regarding the stance of using deposits to cover homes that are perceived as clean, or in better shape than found. Various complaints have risen saying the cleaning policy for rentals is far too over reaching. As a public relations issue, this AR situation might be best remedied by holding deposits in a different regard so that NEWCO's financial situation does not meddle with the happiness of customers. More discussion will come later to address this issue in the Sales and Marketing section.

Any complaints issued to the AR department (or accounting department as a whole) is unknown and should undergo further review. Since various clients (both having properties managed by and renting with NEWCO) have publically discussed their malcontent on Yelp stating that on spending, deposits and how funds are distributed is not up to their standard and have called the company fraudulent. This is a chance for NEWCO to regain their public name and respond to people and get feedback from previous clients on how to improve AR practices and other accounting standards.

Not spending or posting revenue money until the end of the month after clients are actually in property they have rented is practical and should be continued.

The AR process and procedure for each method of receiving payment would benefit from being in documented writing for every process receivables must go through until it reaches NEWCO's income statement. Having this methodology in writing may prevent the company from any potential legal liability that could come in the company's direction based on some of the previous complaints noted on *Yelp*. These complaints to the accounting department of NEWCO should also be addressed by the body that handles public relations for the company so as to build back the reputation via social media on the web.

Finally, *Escapia* should be reviewed by the company if it has not yet been investigated for how well it works and if there is something else that may be able to do more for the company. There are various software platforms that can be looked into and reviewed, so as to ensure that *Escapia* is, in fact, the best system for NEWCO to utilize.

FINANCIAL AREA BAR	KPI PERFORMANCE
	5

8. Bad Debt

This is unfortunate territory companies often encounter when it comes to the Accounts Receivable process in that a credit sale to a customer has not been paid back after the allotted time given to pay back that debt. These losses are counted as an addition to company's overall liabilities and should be dealt with (if at all possible) and be kept to an absolute minimum.

Objective

After identifying the bad debt the company holds, these expenses will be evaluated so as to minimize or eliminate their presence in the future.

Investigation

After reviewing the income statement and balance sheet, no bad debt was found. This was brought up to the CFO to inquire about this area and he confirmed there was no bad debt to be reported on.

Observations

There is no sign of bad debt sitting on the balance sheet and has been confirmed by the CEO as non-existent.

Conclusions

Clients feel they have enough time to pay NEWCO for services provided within the allotted timeframe, whether they are long-term or vacation renters. The company needs no reserve to pay off any bad debts because they are covered by the accounting methods of accounts receivable.

Recommendations

Although there is seemingly no risk with bad debt on file, there should be somewhat of a cushion in place in case of the possibility of renters not paying funds, especially those in a long-term property. There is security in the deposits they pay, however it is unclear if this money is solely used for bad debt pressure points. If it is not already standard practice, any deposits received would benefit from going into a separate reserves account for any given property to ensure that it covers cost of an unpaid month in the future.

If bad debts are not actually factored into the overall percentage of expenses the company is paying, it should be noted as a risk to operations. Otherwise, if there is nothing poor within the standard of Accounts Receivable, the standard practice is working and no bad debt

Financial Area Bar	KPI Performance
	5

is on file, G³ approves of the standard thus far.

9. Accounts Payable

Accounts payable assesses the process and outcome of how and what the company pays in outstanding monetary credits that are owed to the external entities. These are considered liabilities to the company based on its balance sheet of information.

Objective

Once the outstanding balances the business owes are identified, these liabilities are measured against several other variables, including revenue and the value of total assets, to ensure the company's spending and credits are in control with the goal of becoming lean.

Investigation

Spoke with CFO and saw the facilities of the two in-house accounting staffers working for NEWCO taking care of all AP.

Expense accounts attached to accounts payable are not documented from the perspective of those using company credit cards. They are simply used on the honor system and are later evaluated to ensure there is no outrageous spending. At present, 20 people within the company have credit cards and are able to make payments based on need, including but not limited to gas and mileage used when traveling from Pax Valley to Tierra Vista or Mountain Town.

Observations

Short-term accounts payable on the balance sheet are lean and in order. All bills are reported to being paid on time and without any delinquency. Though the processes and procedures have not been documented for the exact methodology used to pay all bills, the CFO has noted that nothing goes beyond a monthly cycle to get all accounts payable (AP) paid.

All checks and balances with respect to AP are verbal. Systems and billing side productivity are Done operationally. All bank statements that are available within the 1st and 3rd days of the month are reviewed and all issues in payment are addressed no later than the 6th of the month. Nothing is left sitting on the balance sheet longer than 40 days.

The supplier/vendor management system has been in "consolidation mode" in that it has been downsized from 1,000 down to 200 in five years. All vendors supply a W-9 and proof of insurance. Insurance is not necessarily reviewed and there are no operational audit components to vendor activities. Dawn, John (of accounting) and Spencer (the CFO) check on any payments that come out of the company.

Conclusions

Financial controls on payable accounts are in good faith, but there is no true mechanism to monitor how payments are distributed. The main financial controller for all AP is Spencer who is in charge of all rules and data quality controls.

Data control improvements through automation can help ensure proper AP oversight. Any errors can be caught more readily by investigating the organization of supplier/vendor files.

The use of company credit cards (20 out of 32 employees have access to one) is disquieting, in the sense that debt is a huge issue for the company and there is no method for expense reporting.

Recommendations

Though it appears that AP runs smoothly, NEWCO may benefit from having specific financial controls on accounts payable, so as to mark up year-on-year invoice productivity targets, the cost to process each invoice, where the invoices are coming from and the timely capture of any discounts provided by the company.

Any payment inefficiencies should be identified by this system. Although only one problem with payment has happened in an eight year history, NEWCO would benefit from having a AP method developed in writing so as to cover any problem with any future discrepancy. Any sharpening of AP tools, such as the duplication of invoicing metric and an automated monitoring of date of sales outstanding data.

The fact that 20 out of 32 people within the company have credit cards should be limited in order to control spending and ensure that no spending goes on without a standard use of expense reporting. The number of credit cards would likely benefit from being limited to department, sales personnel, management teams or another method of limiting the use of credit cards without a standard method of spending, reporting or, at the very least, a cap on the amount that one can spend when using the credit card in a given time. The frivolous use of this practice is likely manageable with a limited amount of employees. However, as the company grows, should they continue this practice, they will likely run into various problems controlling expenses per the various credit cards that exist in the company's name.

Error rate improvement can be built upon reevaluating current practices. On average, the *Accounts Payable Network* reports a 4% error rate on all invoices. Though this may seem low, this cost piles up higher as the company earns more. G³ recommends going a thorough investigation of all supplier files to start addressing any issues and build a method for error checking.

Analyzing the workflow and expense for how much time and money it costs each accountant to process an invoice will help determine the efficiency of the department. Often times it takes more time to process some AP accounts over others. Some automated systems recognize when items get double paid or have systems that help process payments more quickly. This can help AP processing tremendously as the business continues to grow.

Overall, although the standard practice in AP is working for NEWCO, G^3 recommends looking into improving AP processes and evaluating it for how well it is working now and how much better it can be to improve accountants' working life and the company's profitability.

FINANCIAL AREA BAR	KPI PERFORMANCE
	3

10. Book Value

This is an accounting area that indicates the value of the company's total assets minus the intangible assets and liabilities to the costs of depreciation, amortization or impairment. Essentially, it measures what value the company has, within tangible and intangible assets, if it were to go out of business. This raw value demonstrates the company's actual worth versus their growth potential.

Objective

G^3 identifies the value of all assets and subtracts out the depreciation, amortization and depletion along with goodwill and intangible assets to get the tangible book value.

Investigation

Net Book Value is calculated using the following formula:

Net Book Value = Total Assets – (Intangible Assets + Goodwill + Other Non-current Assets – Amortization) – Total Liabilities

Observations

As a reference point for all assets the company holds, the actual tangible assets the company holds is very clearly demonstrated as a negative amount, totaling -$1,533,357 in 2012.

	2010	2011	2012	YTD 2013	2013 EXT
Net Book Value	($1,406,620)	($1,657,680)	($1,533,357)		($1,304,227)

Conclusions

Being that this company is service based and depends on the victory of its sales personnel to acquire value by finding listing clients and clients to rent properties, this number is not exactly telling of what its personnel has to offer the company. However, the negative value is certainly alarming due to the debt the company is carrying.

For any potential investor, the book value would be worrisome, however it does not describe the overall value of what the company has as a whole, other than the debt it is carrying. Therefore, in the effort to cut down debt, the company will increase its assets. Unfortunately by the referencing of this bar (a margin that most investors or buyers would use as a simple business odometer), it appears that the company has out-stepped its boundaries in its acquired debt.

Conclusions

Being that this company is service based and depends on the victory of its sales personnel to acquire value by finding listing clients and clients to rent properties, this number is not exactly telling of what its personnel has to offer the company. However, the negative value is certainly alarming due to the debt the company is carrying.

For any potential investor, the book value would be worrisome, however it does not describe the overall value of what the company has as a whole, other than the debt it is carrying. Therefore, in the effort to cut down debt, the company will increase its assets. Unfortunately by the referencing of this bar (a margin that most investors or buyers would use as a simple business odometer), it appears that the company has out-stepped its boundaries in its acquired debt.

Recommendations

When looking for investors, keying in on intangible assets will be very important, along with focusing on the value added by various personnel and the ability to keep key costs down. The Book Value clearly would be a target for improvement, though it is totally dependent on the company's ability to cut down debt in a timely fashion. This number would be

best revisited several years from now when the debt has decreased to an absolute minimum and book value has a chance of becoming a method of proof that the company is able to recover and prove its assets can certainly outweigh all liabilities even in a service based company.

11. Financial History and Data Quality Assurance

Organized and accurate bookkeeping of historical, present and future cash flow is essential in order to make a proper and precise assessment of the company's financial history. A general ledger of all of the company's financial accounts must indicate the company's revenue and expenses. G^3 recommends having at least four years of financial data available in order to perform trend analyses and over valuable insights on the quality of data.

Objective

By assessing the organization, accessibility and data quality of the company's financial history, G³ can partially attribute the features of overall financial analysis to this indicator.

Investigation

The majority of financial data is managed by software provided by the Enterprise version of *QuickBooks Online*, *Intuit* and has been in the process of slowly being integrated into this more powerful version. Additionally, Vacation Rental payments are all handled by *Escapia* an online based software that allows clients to book properties online with a credit card.

All data management is overseen by the CFO. All rules and data quality controls are issued by the CFO.

Observations

NEWCO has an extremely knowledgeable staff of accountants and CFO in charge of data quality, however there is no defined method for how data is collected, managed and/or generated. The current financial data handling situation relies on the high quality of services provided by *QuickBooks* and *Escapia* to manage the systems, but there are no standard procedures for how to measure the quality of data other than "constant monitoring" by accounting (two person staff) and the CFO.

Conclusions

General quality control on data seems to be sufficient for the company, however as the company grows its revenue streams, its properties and other operations, the company would benefit from having a more standardized approach to ensuring data quality control.

QuickBooks is sufficient as the standard accounting software and should be dynamic enough to meet the needs of NEWCO's finances for the foreseeable future.

Recommendations

G³ recommends having a written or otherwise well-documented methodology for data quality control. In short, there needs to be a conclusive methodology for ensuring the quality of the numbers on the books. For instance, if there are rules and regulations spelled out for when a $5,000 home ends up on the books at $50,000, there should be a data entry error alert to the accountants.

As stated above in the COGS and Revenue sections, the direct expenses allocated to the various income streams should be normalized for understanding how much it costs to produce each service. Normalizing the service definitions will help with data quality control.

Overall governance of accounting and finance are now delegated to the CFO. However, there is little understood when the CFO is not in the office or cannot answer a question. This chain of command should be set in the instance that rules need to change or an executive decision must be made in the absence of the "governor" of finances.

The financial data should be fit to use for the company. Therefore, if there are any other mechanisms that can improve the quality of data it will help the company best evaluate their own financial performance and improve efficiency and effectiveness in this department overall.

FINANCIAL AREA BAR	KPI PERFORMANCE
	4

12. Liabilities Analysis

Liabilities entail any short- or long-term debts or obligations assumed by the business as a result of borrowing activities or other financial obligations. These debts and obligations are hoped to be covered by the total assets the company holds.

Objective

G^3 investigates current liabilities (short-term obligations), contingent liabilities (possible obligations based on a past event) and long-term liabilities (obligations that take more than one year to pay off) and scrutinizes what is found to offer improvement to what is discovered.

Investigation

G^3 evaluated the long- and short-term liabilities the company provided in three years of financial data.

Observations

Due to the acquisition of the Property Management Group in 2011, liabilities long- and short-term force the company to pay off debts before investing into the company or seeing the company grow.

	2010	2011	2012	YTD 2013	2013 EXT	2012 Ratio	Trend %
TOTAL LIABILITIES	**$2,802,058**	**$2,785,502**	**$2,714,768**	$2,767,443	**$2,524,863**	-7.00%	93.3%
Current Liabilities (Amounts falling due within one yea	**$1,308,682**	**$1,245,411**	**$1,417,624**	$80,954	**$1,107,723**	-21.86%	87.2%
Accounts Payable	($3,000)	$4,000	$0	$23,043	$6,011	#DIV/0!	342.9%
Current Income Tax Payable	$0	$2,607	$11,827	$7,901	$7,445	-37.05%	136.1%
Current portion of Loans Payable	$1,304,512	$222,958	$1,403,890		$910,453		
Short-term Provisions	$2,741	$7,637	$1,907	$5,146	$4,358	0.00%	104.7%
Other Current Liabilities, e.g. Unearned Revenue, Deposits	$4,428	$1,008,209	$0	$44,864	$179,456		
Non-Current Liabilities	**$1,493,376**	**$1,540,091**	**$1,297,144**	$34,501	**$1,417,140**	9.25%	98.6%
(Creditors: amounts falling due after more than one year)							
Loans Payable	0	$0	$0		$0	#DIV/0!	0.0%
Issued Debt Securities, e.g. Notes, Bonds Payable	$1,414,185	$1,540,091	$1,297,144	$34,501	$1,417,140	0.00%	0.0%
Deferred Tax Liabilities	$0	$0	$0		$0	#DIV/0!	#DIV/0!
Provisions, e.g. Pension Obligations	$0	$0	$0		$0	0.00%	0.0%
Other Non-Current Liabilities, e.g. Lease Obligations	$79,191	$0	$0		$0	#DIV/0!	#REF!

The Liabilities prove to be the single-largest threat to the company. However, because the company is still performing above costs annually, they are able to cover all long- and short-term debts. Though liabilities are covered by revenue gains, the largest focus for the company is keeping debt to an absolute minimum and trying to ensure the debts are cut down as low as possible.

Conclusions

If the company focuses directly on decreasing liabilities, then the company should be able to bounce back into positive revenue gains. The company has a major focus on cutting down debt, along with each of its shareholders. The company is doing their due diligence in not taking on new liabilities that could put them in further debt jeopardy.

Recommendations

The company should continue to do its due diligence to not take on any new liabilities, while looking to cut down expenses in as many ways possible. The debt problem will lessen as time goes on with increased revenue and spending the utmost on liabilities lying on the books. G³ recommends getting finances in order with conservative spending and no increase in short- or long-term liabilities.

13. Assumable Loans

Assumable loans allow the purchaser of the company or anyone else to undertake the obligations on the loan with no change in loan terms. Assumable loans generally fall under the category of mortgages a new buyer or investor can take over with or without qualifying for the loan the company is liable for. This includes Federal Housing Administration (FHA), Veterans' Affairs (VA) and owner-financed loans.

Objective

Upon recognizing all assumable loans the company has outstanding, the amount and quality of loans will be investigated and reported.

Investigation

Spoke with the CFO regarding assumable loans. There is no data on the quality of such loans.

Observations

The company's CFO is unaware of any assumable loans that the company has in their liabilities analysis.

Conclusions

The company does not know if any of their current loans (long- and short-term) are assumable. This is of no consequence to the company and does not hold any merit until they are looking to sell the company or find additional investors or owners.

Recommendations

Although G^3 recommends not taking on any new long- or short-term liabilities, if the company was ever to look for additional buyers or owners, it would benefit in finding out if the company has any assumable loans a new buyer could take over easily.

FINANCIAL AREA BAR — KPI PERFORMANCE 4

14. Return on Capital Invested

Classified as the "most common profitability ratio", the company's return on invested capital (ROIC) deals with measuring the efficiency of capital invested into the company when compared to how much profit is earned.

Objective

By reviewing net profit and the resources and capital committed to raising profit, simple calculations are made to identify the total ROIC. There may be various channels of investment, and as each is identified, each can be classified based on how profitable the investment has become.

Investigation

G³ calculated the ROIC over the past 3 years and projected 2013 EXT using the following equation:

$$\textbf{ROIC per annum} = \frac{(\text{EBIT} - \text{Total Taxes})}{(\text{Working Capital} + \text{Fixed Assets})}$$

Observations

The long-term debt the company has leveraged as an investment into the company has shown great returns over the past three years. Capital invested shows that the company's investments have translated into growth in the past few years. As an S Corp, the company's tax liabilities are placed upon shareholders, therefore showing that the company's EBIT and assets are performing very well over the company's liabilities proving that the ROIC is steady and the company has invested its capital well.

	2010	2011	2012	YTD 2013	2013 EXT
Return on Invested Capital (ROIC)	7.1%	7.8%	-23.3%		8.7%

The contributing factors to the drop in ROIC is the paying down of long- and short-term liabilities. The major event that brought ROIC to high levels was the purchase of the Property Management Group in 2011. Because the ROIC is significantly higher than the return on equity, the value of ROIC is in the company's current debts, which will become its return once the debts are paid off. It shows that in 2012 the concequences of such actions were felt with a -23.3% return on investment, however the company is projected to bounce back quickly with the continued rise in revenue and monitoring of spending on the liabilities portion of the balance sheet.

Conclusions

Because revenue growth has occurred in the past three years and is expected to continue to grow, the capital invested is not at all affecting the company's ability to grow its revenue. The company has Done very well to manage its ROIC to ensure that the company can continue to grow and does not sacrifice revenue gains when investments are made, and can likely recover from a downturn in ROIC based on 2013 EXT projections should no unorthodox spending take place.

Recommendations

The ROIC measure shows that the company has made wise investments into the company that are covered by the assets it shows on the books and the EBIT it's gained annually. This figure can be used as a reference for banks to demonstrate that the company has made safe investments thus far and has seen the annual returns on such investments and show their ability to bounce back from losses in 2012. This figure can be utilized as a tool to strengthen ties to banks as investments prove to pay off within the company while revenue continues to grow.

Financial Area BAR	KPI Performance
3

15. Lines of Credit

G³ identifies the arrangement the company has with the financial institution(s) or banks that have permitted the company to borrow money on credit and under what constraints. Depending on those terms, G³ determines those that are favorable and those that are not.

Objective

Within that agreement, we identify where these lines of credit are favorable or potentially harmful to the company. Generally, it is preferred to see limited use of lines of credit to pay for company expenses.

Investigation

Spoke with the CFO regarding the details of the lines of credit the company holds. Inquired about the methodologies used to maintain credit.

Observations

The FICO scores of the company are unknown, however because John is the owner, his name is attached to any new investment or credit line opened, therefore his credit is constanly getting looked at. Therefore, his credit is maybe B, B- level in comparison to the remaining shareholders, who are all in great credit standings.

The company has never been late on a single payment on any line of credit. Their longest relationship with any bank is International Bank (formerly "Community Bank"). Their mortgages are traditionally 15-20 years on investments. Typically, of every home owned by the company, they pay off one a year. It is unknown what the total amount of homes owned by the company is. Half of the mortgages within the real estate portfolio have been refinanced.

Because the company has so many clients, if they lost even 50 of their clients, it would not affect the company. Even in vacation rental down turns, the company is able to maintain high occupancy in their homes. The net operating income has to be sufficient to cover the debt when leveraged to grow the company. If it is insufficient for a return on investment, the company has barred itself from taking on greater lending.

Conclusions

Lines of credit are currently up to par with company revenue gains and the company is expected to continue to pay off all lines of credit debts over long-term. The fact that the company's owner has a B, B- rating due to inquiry can be one reason why there has been any barrier to taking on more debt. The company can cover all debts in an emergency, however banks have been difficult to work with to gain any access to even reasonable lines of credit

Recommendations

Any current line of credit is in good order and can be paid down with the company's current and expected funds. The company would benefit from building its banking relationship by 1) finding out what banks may want to work with them (e.g. Wells Fargo) or 2) continuing to cut down debt and re-approach banks after the company has furthered cutting down its debt and raises more revenue from current operations. Also, it may be necessary to platform lending on someone other than John for banking inquiries. Perhaps if the onus was placed upon another shareholder to approach the banks, the message may be more well received.

The current standing of borrowing tells the banks that NEWCO has reached the equivalent of a maximum borrowing amount, stating to the company they are worried about NEWCO not meeting the loan demands. One strategy is to use the U.S. Small Business Administration loan program to receive gaurantees on loans or subsidies, showing lenders that they can be more competitive on rates. SBA provides debt financing, surety bonds, and equity financing, basically setting the guidelines for the company to go forth and guarantees that they will be paid back. Consequently, SBA can become a great asset to the company.

16. Total Assets Evaluation

Total Assets encompasses everything the business owns, based inherently on the original price of the value of the item, both tangible and intangible. Both unencumbered and encumbered assets are to be identified, ensuring the debt potential and financial gain from a potential sale and to identify present value of assets the company owns.

Objective

The total amount of assets the business owns helps G³ to decipher which items are liquid and can be converted into cash for the company. Once identified, these assets will be categorized as to whether or not they are encumbered, unencumbered and/or leverageable for the company. The results will provide guidance on deciphering other items when discussing the company's overall value.

Investigation

Spoke to CFO regarding asset information.

Observations

NEWCO's goal is to create the most profitable company by ting critical of all revenue gained. They are looking to figure out what items they can minimize. Anything that does not exist that is amortized, the company seeks to get off their balance sheet.

Most assets the company owns are unencumbered barring vehicles, copiers and software.

Conclusions

The company does not currently have an asset management policy to monitor for asset stressors, goals or strategies to be able to leverage for future endeavors. The only encumbered assets are vehicles, copiers and software. Because these are relatively small expenses to the whole of the asset values, and should be the only encumbered assets accounted for, the company can easily do without these encumbered assets and they offer no threat.

Recommendations

The company should have an asset management policy to regulate what assets they want to keep, leverage, which are stress points on the country and what goals they have in having future assets. Having this structure will help manage the company into future borrowing or help prove the assets the company holds cover the cost of new investment.

The company should be able to easily locate encumbered and unencumbered assets in any circumstance for accessibility to structure new investments and liabilities with the goal of having as many liquid assets the company can bear. Therefore, the policy NEWCO develops should declare the status risk and results of all assets assessed that the company carries. Any potential improvements should be recognized along with stress testing how the policy works in managing the assets.

Financial Area Bar	KPI Performance
	4

Human Resource Systems and Procedures

Human Resource Management (HRM) is the function within a business that focuses on recruitment, management, and providing direction for the people who work in the business. HRM is the business function that deals with issues related to people such as compensation, hiring, performance management, business development, safety, wellness, benefits, employee motivation, communication, administration, and training. Proper HR procedural practices are vital to the health of any business, and efficient systems are required to ensure that employee morale remains high and all employee related issues are dealt with appropriately. This section examines HR related issues and the financial, operational and human impact they have on the business.

Within the business, the following human resources and procedural areas were examined and evaluated and assessed for efficiency and effectiveness:

- Human Resources Processes and Procedures
- Employee Contracts
- Evaluation of New and Potential Employees
- Employee Performance Review System
- Employee Benefits
- Employee Morale
- Employee Turnover

Conclusions

NEWCO follows ad hoc HR procedures and has HR documents as an Employment Agreement, Employee Handbook, and an NDA Agreement after a study of the former documents, a study and analysis of the office divisions and departments our recommendations are the following:

Recommendations

1. The Employee Handbook would benefit with the addition of several clauses that are missing at this moment:
   a) Family/ Medical Leave (FMLA)
   b) Bereavement Pay
   c) Jury Duty
   d) Voting
   e) Military Leave
   f) Continuation of Coverage (COBRA)
2. The Employment Agreement/ Contract that is used at the moment is very simple and does not offer enough legal protection to the Company, it would greatly benefit with the addition of more specific clauses,

3. The Non Disclosure Agreement (NDA) has several Non Compete clauses but the recommendation would be to make it more specific creating a more solid Non Disclosure Agreement as well as solid Non Compete Agreement.
4. The HR Department has to make sure that the laws governing employment are followed:
   - Laws on race, religion, and national origin
   - Laws on gender, pregnancy and family issues
   - Laws on age discrimination
   - Understanding affirmative action
   - Understanding the "protected classes"
   - Wage and Hour Laws
   - Hiring questions you should and shouldn't ask
   - Important to be in Compliance of the following:
     - Compliance with all existing governmental and labor legal and government reporting requirements including any related to the Equal Employment Opportunity (EEO), the Americans With Disabilities Act (ADA), the Family and Medical Leave Act (FMLA), Employee Retirement Income Security Act (ERISA), the Department of Labor, worker compensation, the Occupational Safety and Health Administration (OSHA), and so forth.

a. This would benefit NEWCO by mantaining minimal company exposure to lawsuits by being in compliance with laws.
b. Would also protect the interests of employees and the company in accordance with company Human Resources policies and governmental laws and regulations.

Even though we were assured about the way they conduct interviews it is always beneficial to read and follow a list of what would be considered Legally Acceptable vs. Not Acceptable questions during an interview (important while interviewing potential candidates).

a) DOL Labor Laws Compliance should be added to the Employee Handbook.
b) Adding a clause regarding Mediation/Arbitration process to Employee Handbook and Employment Agreements is always useful,
c) Employee Self Evaluation Survey templates can be added to the HR documents
d) The Personnel File Policy is one that should be taken very seriously as Laws like HIPAA have created so many changes in the Confidentiality issue on information and personnel records.

5. Employee Files should be divided.

- Employee Personnel File - This is the main personnel file an employer maintains for each employee. The personnel file stores the employment history of each employee.

- Medical File- The employee medical file has serious legal restrictions and considerations that the employer must know and heed. With HIPAA Law things have changed in the working space and we need to follow confidentiality restrictions.
- Payroll File- Employee access to the employee payroll file is less restrictive than access to either the medical or the personnel file. The payroll file holds information about salary, benefits selection, pay rate changes, garnishments, and other legal documentation that affects an employee's pay check. Various accounting and Human Resources staff access the information in the payroll file.

6. Post Official Labor Dept. Posters / State & Federal.
7. Post Anti Harassment Policy Poster
8. Address office safety issues:
   a. Self-Adhesive Anti-Slip (Non-Skid) Tapes in areas like steps/ramps
   b. Safety Yellow Lines in slippery areas and steps will help the company eliminating potential personal injury lawsuits
9. Offer more and better recognition awards for good performance and sales.
10. Establish a company culture of promoting from within. A promotion is a form of recognition for employees who make significant and effective work contributions.
11. Turnover is generally disadvantageous to the company often because costs are applied to the firm for locating, recruiting, hiring and training each worker.

HR Area BAR	HR Performance
	762

Detailed HR Review

17. Human Resources Processes and Procedures

Evaluating the HR Processes and Procedures identifies areas of strength and weakness within the business and where improvements may be necessary. Because the HR dynamic touches on legally regulated, organizational policy, and health and safety aspects of the company, G³ first investigates any sort of HR manual detailing any of these items. Upon discovering what the current HR practices are within the company, G³ then goes into great depth of analysis within each of the primary HR areas of interest.

Objective

G³ then goes on to investigate compliance with any and all established policies and/or regulations, to best serve the needs of management, employees and the overall business community; to evaluate training, recruiting, compensation practices and benefits plans. Many parts of the HR evaluation will be discussed in greater detail below, however G³ looks to ensure that the overall activity within this area is sound and in good working order.

The Human Resources Department focuses on recruitment, management and providing direction for the people who work in the business.

- compensation and benefits;
- hiring/ recruiting and staffing;
- organizational and space planning;
- performance management and improvement systems;
- organization development;
- employment and compliance to regulatory concerns;
- employee orientation, development, and training;
- policy development and documentation;
- employee relations;
- company-wide committee facilitation;
- company employee and community communication;
- employee safety, welfare, wellness and health;
- charitable giving; and
- employee services and counseling

Investigation

G³ went into NEWCO investigate compliance with any and all established policies and/or regulations, to best serve the needs of management, employees and the overall business community; to evaluate training, recruiting, compensation practices and benefits plans. Many parts of the HR evaluation will be discussed in greater detail below, however G³ looks to ensure that the overall activity within this area is sound and in good working order.

G³ looked specifically into the following:

- Safety of the workforce.
- Development of a superior workforce.
- Development of the Human Resources department.
- Development of an employee-oriented company culture that emphasizes quality, continuous improvement, and high performance.
- Personal ongoing development.

Compensation

- Establishes the company wage and salary structure, pay policies, and oversees the variable pay systems within the company including bonuses and raises.
- Leads competitive market research to establish pay practices and pay bands that help to recruit and retain superior staff.
- Monitors all pay practices and systems for effectiveness and cost containment.
- Leads participation in at least one salary survey per year.

Benefits

- With the assistance of the CFO, obtains cost effective, employee serving benefits; monitors national benefits environment for options and cost savings.
- Leads the development of benefit orientations and other benefit training.
- Recommends changes in benefits offered, especially new benefits aimed at employee satisfaction and retention.

Law—The HR Department has to make sure that the laws governing employment are followed:

- ➢ Laws on race, religion, and national origin
- ➢ Laws on gender, pregnancy and family issues
- ➢ Laws on age discrimination
- ➢ Understanding affirmative action
- ➢ Understanding the "protected classes"
- ➢ Wage and Hour Laws
- ➢ Hiring questions you should and shouldn't ask

Human Resources leads company compliance with all existing governmental and labor legal and government reporting requirements including any related to the Equal Employment Opportunity (EEO), the Americans With Disabilities Act (ADA), the Family and Medical Leave Act (FMLA), Employee Retirement Income Security Act (ERISA), the Department of Labor, worker compensation, the Occupational Safety and Health Administration (OSHA), and so forth.

- Complying with the law maintains minimal company exposure to lawsuits.
- Directs the preparation of information requested or required for compliance with laws. Approves all information submitted. Serves as the primary contact with the company employment law attorney and outside government agencies.
- Protects the interests of employees and the company in accordance with company Human Resources policies and governmental laws and regulations.

Observations

The Company seems to be following procedures and complying with the laws but to our understanding the CFO has too many jobs at the same time as he is covering CFO, HR and IT Departments on his own.

The company has no Employee Handbook describing any company rules, regulations, job expectations, etc.

The personnel documents have been filed in one folder per employee, this can make the company liable as the personal medical information is not separated from the general personnel file, not granting it the privacy and confidentiality it deserves by law. Also, Keeping good records also means creating standard forms for items you will use all the time—with every employee. You will need a standard form for salary increases, another for performance reviews, and another for disciplinary actions.

Conclusions

The Company would benefit if the IT, HR & CFO departments were divided between more people responsible for the various roles.

Recommendations

Each of the above named departments are too complex and time consuming to be overseen and run by just one person. These departments need time and effort to run well, there are many procedures to be followed and many laws to comply with. Our recommendations are to divide these departments between more people and let the CFO be just CFO or IT. You can always outsource HR or IT and this would give the CFO time he needs to work with his department.

Employee Handbook

Even though the Employee Handbook is not a contract it sates policies and company regulations and procedures. It is always good to have a detailed oriented employee handbook from which the employees can get answers to their questions. It also protects the company by stating the company policies and procedures.

Ideally, your handbook should be more than a compilation of rules and regulations that your employees must live by in the workplace. That's not to say that your policies aren't appropriate to put in a handbook—they most definitely are. But there are other things that you may want to put in your handbook as well. Here's a list of the types of information that can be put in a handbook. Although most of these items are optional, some federal or state law may require you to provide written notice of some of these policies:

The Employee Handbook designs, directs, and manages a company-wide process of organization development that addresses issues such as succession planning, superior workforce development, key employee retention, organization design, and change management.

- Manages employee communication and feedback through such avenues as company meetings, suggestion programs, employee satisfaction surveys, newsletters, employee focus groups, one-on-one meetings, and Intranet use.
- Directs a process of organizational planning that evaluates company structure, job design, and personnel forecasting throughout the company. Evaluates plans and changes to plans. Makes recommendations to executive management.
- Identifies and monitors the organization on culture so that it supports the attainment of the company goals and promotes employee satisfaction.
- Leads a process of organization development that plans, communicates, and integrates the results of strategic planning throughout the organization.
- Manages the company-wide committees including the wellness, training, environmental health and safety, activity, and culture and communications committees.
- Keeps the CEO and the executive team informed of significant problems that jeopardize the achievement of company goals, and those that are not being addressed adequately at the line management level.

G³ recommends the addition of the following points to the NEWCO Employee Handbook:

- Work rules and policies
- Introductory or probationary period
- Employee's role and responsibilities
- Overtime policy
- Attendance and punctuality
- Time cards
- Personnel records
- Payday
- Wage and performance reviews
- Promotions
- Termination
- Hospital and medical insurance
- Life insurance
- Disability benefits
- Pension and profit-sharing plans
- Call-in or report-in pay
- Training
- Service awards
- Workers' compensation
- Unemployment insurance
- Sick leave
- Disability leave
- Personal leave
- Funeral leave
- Jury duty leave
- Arbitration
- Military leave
- Safety
- Personal protective equipment for (housekeepers)
- Safety rules
- How to report accidents
- Corrective discipline procedure
- Summary and acknowledgment disclaimers reviewed by your lawyer

Employers use the policies in an employee handbook to protect themselves from lawsuits, such as harassment claims, wrongful termination claims, and discrimination claims. Employee handbooks generally contain a code of conduct for employees that sets guidelines around appropriate behavior for the individual workplace. Progressive discipline and procedures for making a complaint are also in most employee handbooks.

Employees are expected to review and be familiar with the contents of the employee handbook. A majority of employers ask employees to sign a statement to demonstrate that the employee has read the employee handbook and agrees to abide by the contents. This signed document acknowledges that the employee understands and has received a copy of the employee handbook.

HR Organization of Employee Information

The information in the employee folders should be kept in order by date, beginning with the worker's resumé and references, and an employment application. Also, keep the original job description for each new hire and create room to note any changes in responsibilities over the coming months and years. That will make it easy for both company and the employee to track how the position and skill set required for the position have changed. This part of the employment file should also include the date set for the first performance evaluation. Once that takes place, a written review should be added. Keep all such reviews, just in case. You may be called upon someday to justify a firing or a bad review.

Within a new employee's first week on the job, the compan should have the new employee fill out a Form W-4 for payroll withholding and tax purposes and add it to the employment folder. In some cases, immigration and naturalization forms like Form I-9 are also needed.

If your company offers a 401(k) and health benefits, you will need to keep copies of any paperwork on those plans that an employee has filled out. Because health-care paperwork contains especially sensitive information, it is smart to keep it separate from all other employee paperwork, in a folder with tighter access control.

These forms should all include the following basic information:

- Name, start date, and job title
- Date of the review or action, as well as what action is being taken
- Names of any other coworkers involved in the action
- Specific questions to answer during a review, with a good scale to judge progress
- Additional space to set new goals and priorities
- Room for the signatures of everyone involved when the form is completed

Also, be sure to make a copy of all forms that an employee signs for the employee's personal records. By law, employees are entitled to a copy of anything that they sign, and they can request to see anything in their employee file.

The employee Files should be set up the following way:

1. Compensation and benefits
2. Performance reviews and documentation of key events, such as promotions and disciplinary actions
3. Medical documents

There are two good reasons to maintain multiple folders for each employee: the IRS and varying state laws on how medical information is maintained. You'll want to keep all information on salary, overtime hours, and benefits in one folder in case the IRS ever has questions for unemployment or tax purposes. You'll want to keep medical information in another folder—under an extremely tight lock and key—because of the high level of privacy it demands. Nothing upsets employees more than finding out that their sensitive medical information has fallen into the wrong hands. You could even be sued for not protecting that information.

What do you do with employees' files after they leave NEWCO?—To comply with IRS regulations, you must hang on to employees' files for seven years after an employee leaves your company. To defend your company against possible lawsuits concerning breach of employment, failure to pay overtime, employment discrimination, sexual harassment, and any other type of employment issue, you should keep employees' files for four years—the statute of limitations for such. If filing space is an issue at your office, box the files of former employees and place them in dead storage until the seven-year holding period expires. It's cheaper than not being able to defend yourself in the event of an audit or lawsuit.

Because several types of personnel files are recommended, different rules and guidelines are associated with each personnel file.

- Each type of personnel file has a different reason for existing and different contents, based on that reason.
- Each type of personnel file is stored differently (separate binders, folders, etc).
- Access to a personnel file is restricted to certain employees in most organizations. Different personnel file types have different access guidelines.

Divide the Employee Files as:

- Compensation and benefits
- Performance reviews and documentation of key events, such as
- promotions and disciplinary actions
- Medical documents

Employee access to his or her personnel file is allowed, but most employers set up guidelines for employee access with a personnel file access policy in the employee handbook. The Human Resources department "owns" and is responsible for employee personnel files.

HR Area Bar	KPI Performance
	3

18. Employee Contracts

G³ first investigates the existence of employment agreements and, should they be in existence, later assesses the quality of employment agreements attributing the rights and responsibilities of those individuals providing their services to the company. G³ investigates this area to ensure the company is protecting its own assets, IP, and its human capital as they conduct business. Ensuring there are protections such as non-compete clauses, confidentiality and other levels of responsibility contracted to the signing party will standards of contractual protection for the business.

Objective

Depending on the employee and the agreement necessary, G³ examines the following types of contracts and agreements: union, executive employment, non-compete and confidentiality. Should the company not have necessary contracts in place to protect its assets, IP and other areas, G³ will make recommendations on how to improve this area of the company.

Investigation

G³ asked for copy of the Employee Agreement, Employee Handbook, NDA, Non Compete Agreement to see if they are in compliance with any and all established policies and/or regulations, to best serve the needs of management, employees and the overall business community; to evaluate training, recruiting, compensation practices and benefits plans. Many parts of the HR evaluation will be discussed in greater detail below, however G³ looks to ensure that the overall activity within this area is sound and in good working order.

Observations

Employment contracts are a binding agreement between the employer and employee that lays out, in written words, the duties of parties and how long the employee must work for the company. An employment contract is much better for both employers and employees. A comprehensive contract of employment allows an employer to specify an employee's duties and responsibilities - so an employee knows exactly what is expected of them.

G³ received a sample Employment Agreement which states the name of the employee, then the position in the Company followed by 6 clauses. It has a "Section 2" for Job Duties which consists of only 2 clauses, date and signature.

Conclusions

The Contract/Employment Agreement the Company has at the moment is too simple and does NOT cover many clauses that should be in any Employment Agreement for the protection of the company as well as the employee.

Recommendations

Employment contracts are a binding agreement between the employer and employee that lays out, in written words, the duties of parties and how long the employee must work for the company. An employment contract is much better for both employers and employees. A comprehensive contract of employment allows an employer to specify an employee's duties and responsibilities - so an employee knows exactly what is expected of them.

Small business owners usually use an employment contract to guarantee that an employee--typical high-level employees--does not leave to find another job during the period when contract is in effect. An employee that leaves after training puts an undue cost on the business--even more for advanced positions such as an executive. In addition, a contract allows a small business adequate time to plan for any possible replacement. Even if an employee leaves after finishing the terms of the agreement or breaks the contract, you can include provisions that forbid him from working for a competitor. For positions that entail working with sensitive financial information or data, you can add penalties for revealing confidential knowledge.

Employment contracts are useful for explaining the details of the employee-employer relationship to prevent a possible "implied" contract. To counter an implied contract, you can use a written contract that guarantees only basics, such as the hiring date and hour wage or salary.

Signing an agreement with "rank and file" employees usually just offers more flexibility to the company by reaffirming the at-will nature of the employment. At-will employment means either party can terminate employment at any time. Agreements, such as an employee handbook or offer letter, are simple agreements to indicate at-will employment.

It is always good to add a mediation/arbitration clause in the contract or in the employee handbook. Arbitration is a big help especially in reducing legal fees and usually both parties arrive at a happy resolution leaving both parties satisfied, it also eliminates the stress and drama of a court. Of course, if it doesn't solve the problem you can always go to court. Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in accordance of the rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrator(s) shall be entered in any court having jurisdiction thereof. For that purpose, the parties hereto consent to the jurisdiction and venue of an appropriate court located in Pax Valley, State of New Mexico. In the event that litigation results from or arises out of this Agreement or the performance thereof, the parties agree to reimburse the prevailing party's reasonable attorney's fees, court costs, and all other expenses, whether or not taxable by the court as costs, in addition to any other relief to which the prevailing party may be entitled. In such event, no action shall be entertained by said court or any court of competent jurisdiction if filed more than one year subsequent to the date the cause(s) of action actually accrued regardless of whether damages were otherwise as of said time calculable.

We highly recommend the implementation of a solid Employment Agreement including the following Clauses:

- Names of the Parties
- Start Date
- Job Title and Description
- Place of Work
- Hours of Work
- Probationary Period
- Salary
- Assessments
- Deductions
- Expenses
- Holidays
- Sickness & Disability
- Pension
- Notice
- Grievance & Disciplinary Policy
- Restrictive Covenants
- Grievance and Disciplinary Procedure
- Retirement
- Employment Equality (Age) Regulations 2006 - age discrimination legislation
- Severability
- Prior Agreements
- Jurisdiction
- Arbitration
- Particulars of Employment

HR AREA BAR	KPI PERFORMANCE
	3

19. Evaluation of New and Potential Employees

New and potentially new employees are also an important metric to keep track of within the company, to ensure that positions available within the company are filled with quality candidates and the company is attractive to new customers and clients should they come across the job posting. The important metric to remember is to ensure that the hiring of new employees reflects the needs of the company and is somewhat treated as an exercise in marketing for the company.

Objective

The ROI of investing in new talent is evaluated by G³ by similar metrics of ensuring the time and effort put into recruiting new staff is matched by retention, performance and overall quality of the candidate recruited.

Investigation

Spoke with CFO regarding current practices to hire new employees and recruit potential employees.

Observations

We were supplied very limited information regarding the candidate interviews. G^3 was informed that NEWCO followed very closely the legalities of candidate Interviews. G^3 decided to add some recommendations.

G^3 also found out that the hiring of recent high-quality employees is a testament to NEWCO for being a great place to work. Candidates are seeking out the company to work for and they are able to recruit more quality candidates. It was also said that a few positions were built around the candidate.

Conclusions

G^3 asked several questions in terms of the way candidates are selected to evaluate if NEWCO was following the legal procedures during the interview phase of a candidate trying to determine if they were liable in that area, but was not supplied exact information in regards to how interviews are currently handled.

The idea was that fair hiring laws were enacted to give every candidate a fair shake in the interview and selection process. Yet more than 40 years after the first of these guidelines became law, job candidates today still are asked questions that are illegal, insulting, and irrelevant to job performance. The keys to eradicating this kind of behavior are ongoing education and consistent interviewing and selection practices.

NEWCO is content with the supply of new talent into NEWCO and is confident that they can recruit the quality staff there is a need for any future hires.

Recommendations

Although NEWCO is content with the current supply of new and potential employees that could enter the NEWCO workforce, G^3 recommends strategizing for future recruits and growth of employees when the occasion arises. Such items that should be taken into account are recruitment strategy costs, recruitment cost ration, amount of time to fill the position, position vacancy rates within the company, selection ratios, the quality of the hire you find, and finally the turnover and retention rates based on that strategy and quality of candidates found.

Also, because there is no current strategy for NEWCO's hiring practice, G^3 recommends assessing current interview practices and assessing the hiring management staff. There are many questions you should not ask during a job interview, even if your motives are innocent. This is because they can make you vulnerable to charges of discrimination if the prospective employee is not hired. You also have to be careful about information volunteered by potential employees for the same reasons. Most "illegal" interview questions are unrelated to any legitimate hiring criteria, so just stay focused on relevant issues such as education, work related skills and work history.

Never use the word "disabled" or "handicapped" in a job interview. Physical capabilities may be directly relevant to job performance in certain types of jobs. Ask whether the candidate is capable of performing particular job duties. You should also steer clear of questions about medical history or whether an applicant has previously received workers' compensation. These questions are regarded as potential surrogates for inquiries about disability status.

Unfortunately, most hiring managers are untrained in the legalities of interviewing, so it's fairly common for candidates to be asked illegal questions. Virtually all states have laws or regulations prohibiting discrimination on the basis of race, color, religion, national origin, ancestry, medical condition, physical handicap, marital status and age (40+). Generally, questions on employment applications or in interviews about national origin (including questions about your native language) are illegal. Employers also can't ask your marital status or the number and ages of your children and dependents. Nor can they ask questions about pregnancy, birth-control use or your plans for having children.

You can ask about disabilities in the following form: "Do you have any physical condition or handicap that may limit your ability to perform the job for which you're applying? If yes, what can be Done to accommodate your limitations?" You can't, however, ask about his/her general medical condition or illnesses, or whether she/he receives worker's compensation. Nor can you ask, "Do you have any physical disabilities or handicaps?" Employers aren't allowed to inquire about religion. A question such as, "Are there any holidays or days of the week you can't work?" would probably be held illegal, even if religion wasn't mentioned. However, it would probably be acceptable to ask, "We often work holidays and weekends. Is there You can ask if he/she has ever been convicted of a felony, but not if he/she's ever been arrested. In some states, even questions about a felony conviction would have to be worded carefully to make sure they're clearly job-related. For example, a candidate for controller might be asked, "Have you ever been convicted of embezzlement?" but not, "Have you ever been convicted of a felony?"

HR AREA BAR	KPI PERFORMANCE
	4

20. Employee Performance Review System

Evaluations of current employee performance are endemic to the success of the company in that it assesses each employee's productivity and overall output according to the company's objectives and organizational needs. Utilizing performance appraisals to evaluate current employees provides indicators for offering promotions, transfers or perhaps terminations. Establishing these objectives is essential to guiding and monitoring development within the company.

Objective

G³ first threshold of discovery for the auditor, is deciphering whether or not there is a performance review mechanism in place. If not, recommendations will feature how and why the process is to be put in place. If a review system is in place, it will be assessed for quality assurance and overall effectiveness in managing employee performance.

Investigation

G³ was informed that NEWCO uses survey's to measure the employee performance. Even though a survey was supplied G³ was not informed of absolute results, but understands that the company is very proud and content with the current status of its system of review.

Observations

The company's management meets with staff for "one-on-ones" once a month to discuss performance goals, strengths, weaknesses and discuss any issues the employee might be having. Based on their employee survey data and the interviews, several strategies were recommended, but this strategy alone accomplished several goals. First, the root cause was addressed by encouraging feedback and upward communication across the entire organization. Secondly, this strategy became the cornerstone of a recognition program that, while open to all, is awarded only to those who earn it. And thirdly, the company's investment in the program—the bonus—is is derived from additional revenue that the program itself generates. Some employees mention they would like to receive more and better recognition awards for good performance and sales. Also, they mention they would really like if the company would send and pay for key staff to attend sales conferences or sales trainings, at least once a year.

Conclusions

In interviews performed by G³ some employees mentioned that they would like to receive more performance reviews than employee morale surveys, they said that they would like to be recognized when achieving something good for the company, would like to receive awards and/or certifications for sales and good work. Even though NEWCO offer its employees incentives for working for volunteer causes, they have to do it on their own free time.

Recommendations

We are in agreement with the current status of the employee review system and method of communication to continue to improve the status of the management and employees. Although there are methods to incentivize better performance by employees and rewarding them for work well Done. NEWCO can offer incentives like working for volunteer causes, maybe at a ratio of two hours per month on working time. The company should ask itself:

- Does the review program identify candidates for promotion, increased or decreased compensation, or termination?
- How well does the system determine employee development within the company?
- Has the evaluation system validated the process in which it selects its candidates for the various positions it has recently hired for?
- Has it monitored the effectiveness of communication throughout the company?
- Does the evaluation motivate employees to improve performance?

G³ understands there is currently no method for evaluating management staff. One method of doing so is to design a "Great Ideas Program":

1. Employees submit ideas on how to make the company more efficient, cut costs, or increase revenue.
2. Can be done by paper, email, or via the company's intranet. Intranet is recommended, as it provides a documentation of the person and time the idea is submitted, eliminating potential conflicts.
3. All ideas will be evaluated.
4. There will be no limit to the number of ideas selected for merit.
5. An idea is selected for merit if, in management's sole opinion, it should be implemented.
6. All employees who submit ideas of merit that are implemented will receive company-wide recognition and a bonus related to the financial impact of the idea on the company.

In any labor market, companies compete to find and keep the best employees, using pay, benefits, promotions, and training. But these well-intentioned efforts often miss the mark. The front-line manager is the key to attracting and retaining talented employees. No matter how generous the pay or how renowned the training, employee survey research shows the company that lacks great front-line managers will suffer.

The best managers select an employee for talent rather than for skills or experience, setting expectations for him or her, defining the right outcomes rather than the right steps. The best managers motivate people, building on each person's unique strengths rather than trying to fix their weaknesses. And, great managers develop people, finding the right fit for each person, not necessarily the next rung on the ladder. Essential to this process is the employment of an appropriate measuring stick, which successfully links customer data with employee productivity, customer loyalty, and profitability. Employee surveys are also uniquely recognized for its ability to prescribe surgical strikes that hit at the heart of underlying psychological factors affecting

employee performance and customer loyalty, now known as root cause analyses. Through the root cause analyses, underlying psychological factors that motivate supervisors within a particular business environment are identified, and appropriate incentives are designed to address those factors.

HR AREA BAR	KPI PERFORMANCE
	3

21. Employee Benefits

The Employee Benefits evaluation entails a comprehensive look at all remunerations, outside of salary or wages, employees receive for their service to the company. This includes assessing items such as health insurance, paid leave, retirement plans and other company volunteered benefits. Additionally, legally mandated benefits such as Social Security, unemployment insurance, workers' compensation, and family and medical leave are also measured. Finally, various individual financial security programs may be in place, such as individual retirement accounts (IRAs), life insurance, and other forms of after-death benefits.

Objective

The benefits package a company offers helps to attract and retain valuable professionals. The package needs to be cost effective for the employer and attractive to the potential and existing employees. A cost analysis of the package is invaluable to management, to ensure appropriate expense levels are maintained. G³ undergoes a comprehensive evaluation of the entirety of the benefit program(s) the company has in place, specifically looking into the design, funding mechanism and quality of the communication strategy behind that program, relative to the cost of and assesses the areas where improvements can be made.

Investigation

The Employee Benefits evaluation entails a comprehensive look at all remunerations, outside of salary or wages, employees receive for their service to the company. This includes assessing items such as health insurance, paid leave, retirement plans and other company volunteered benefits. Additionally, legally mandated benefits such as Social Security, unemployment insurance, workers' compensation, and family and medical leave are also measured. Finally, various individual financial security programs may be in place, such as individual retirement accounts (IRAs), life insurance, and benefit program(s) the company has in place, specifically looking into the design, funding mechanism and quality of the communication strategy behind that program, relative to the cost of and assesses the areas where improvements can be made.

Observations

NEWCO offers the following Benefit Package:

1. Workers Compensation
2. 401K
3. Health Insurance with HealthCareUSA Health Insurance with Advantage Care.
    a. It is a high deductible policy ($2500/80% w/Rx)
    b. Includes Vision/ Dental/Mental

The Health Insurance while being a High Deductible Health Plan covers Vision, Dental & Mental which makes it a very complete health insurance. During the "at random" interviews with several employees they mentioned that the health insurance had a high deductible and that the dental coverage was not very inclusive. Another concern was that the 401K is not matched by the Company.

Conclusions

The benefit package seems to be competitive for the industry and because turnover is low, and there was no mention of complaint, the benefits are well in order. As discussed in SG&A, the company may want to look into some possible changes in getting rates a bit lower. Overall, the benefits seem to cost the company a decent amount to uphold and benefits appear to be fairly and proportionally sound as delivered to employees.

Recommendations

In the future NEWCO can consider adding:

- Short term disability Insurance
- Long Term Disability Insurance
- Matching 401K
- Life Insurance
- Lower Deductible for the Health Insurance

HR AREA BAR	KPI PERFORMANCE
	5

22. Employee Morale

High employee morale is an indication of the overall ability for the company to respond to the needs of its employees and therefore is a reflection of the overall success of the company. It is a qualitative measure, based on observational experiences, that measure the emotions, attitudes, satisfaction and employee outlook. Employee motivation is an indication of how productive employees will be which may influence the retention of employees, and can be a great recruitment tool for new talent.

Improvements in employee morale can also advance gross profit, which translates to positive earnings. Not only is the company satisfied with the increase in these numbers, the overall work environment is one that invites a credible and productive staff and it strengthens their ability to recruit high-quality staff. Regularly checking for employee feedback provides this data, not in just one interview, but it may be recommended for the company to investigate morale more regularly.

Objective

The qualitative data taken on this subject can help the company to identify how to improve its employee relations, and therefore improve productivity and the company's overall success.

Investigation

G³ interviewed several at random employees to study the employee morale. Per the information given to G³, NEWCO seems to have a very low employee turnover.

Observations

During the "at random" interview it was mentioned to G³ that NEWCO does not yet have a company culture of promoting from within the company. It was also mentioned that some of the high positions are being offered to family affecting the employee morale.

Low morale can lead to poor cooperation, low productivity and increased turnover -- and ultimately hinder a business from reaching its goals. Since employee morale can quickly build or break a company's success, effective leaders often keep a close eye on it and enlist simple and creative approaches to strengthen it. Even though G³ was informed by management that NEWCO had a very low turnover, after interviewing several employees chosen at random G³ noticed that they had been with the company between 4 years to a few months. By the dates given G³ understood that the turnover is higher than first informed by the Company.

The advancement of an employee from one job position to another job position that has a higher salary range, a higher level job title, and, often, more and higher level job responsibilities, is called a promotion. Sometimes a promotion results in an employee taking on responsibility for managing or overseeing the work of other employees. Decision making authority tends to rise with a promotion as well. Visually, a promotion moves an employee's job up one level on an organizational chart.

A promotion is viewed as desirable by employees because of the impact a promotion has on pay, authority, responsibility, and the ability to influence broader organizational decision making. A promotion raises the status of the employee who receives a promotion which is a visible sign of esteem from the employer.

Low turnover is positive for the company as high turnover is one of the ways to measure employee morale. Depending on how often employees leave the company, in comparison to those who stay and are retained, show how they feel about their jobs and the company itself.

Employees seem happy, friendly and productive in their efforts to present themselves around strangers, visitors and their peers. This is a clear indication that the service oriented mindset of staff is always in tact.

Conclusions

Employee morale is high with very few complaints. Those complaints that did arise were from a few disgruntled employees, which will be typical of any company.

Recommendations

NEWCO should establish a company culture that promotes from within. Many people in the workforce have experienced the feeling of being stuck in the same position far longer than the proclivity of their interests and ambitions. This often leads to a general feeling of angst regarding their job, causing employees to seek out another company for more challenging prospects. Consequently, this works against business owners who will lose a high-performing employee in the process. When employees see that there is no internal promotion system in place they think that there's no career path for the people there and it forces them to constantly be job hunting because they know they're not going anywhere in that company.

While leadership development programs are great for identifying existing talent within your ranks, it's also a good idea for NEWCO to establish an overall company culture of promoting from within. This will provide steps, examples, and advice for advancing your high-performing employees into positions within the company that are commensurate with their talent. It is always beneficial for a Company to boost employee morale. Improvements in employee morale can also advance gross profit, which translates to positive earnings. Not only is the company satisfied with the increase in these numbers, the overall work environment is one that invites a credible and productive staff.

HR AREA BAR	KPI PERFORMANCE
	4

23. Employee Turnover

High turnover is how often employees leave the company, in comparison to those who stay and are retained. Turnover is generally disadvantageous to the company often because costs are applied to the firm for locating, recruiting, hiring and training each worker. When turnover occurs, employees take critical workplace knowledge with them, while their loss can disrupt projects and deadlines while replacements are found. If those employees begin working for competitors, competition can benefit from the firm's investments in employee training. In contrast to negative effects of turnover, small and consistent turnover benefits some businesses. New talent can keep the company's ideas innovative and add to the workplace culture dynamic.

Objective

Understanding turnover rates, the reasons and motivations for leaving a position, and the costs of replacing such employees is an important part of managing and retaining employees and reducing employment related costs.

Investigation

Spoke with person in charge of HR, CFO Spencer and conducted interviews with staff at random.

Observations

We were told that NEWCO has a very low employee turnover, but no hard data was supplied on true employee turnover. Turnover is not documented as a standard HR procedure.

G^3 was under the initial impression that NEWCO had practically no turnover, during the at random interviews G^3 found out that the turnover was greater than initially discussed with management. From all the employees selected at random (6 employees) all of them had been with the Company no longer than 4 years, some of them between 3 to 6 months. Depending on how often employees leave the company, in comparison to those who stay and are retained shows how they feel about their jobs, and the company itself.

Turnover is generally disadvantageous to the company often because costs are applied to the firm for locating, recruiting, hiring and training each worker, and therefore should be documented. When turnover occurs, employees take critical workplace knowledge with them, while their loss can disrupt projects and deadlines while replacements are found. . High turnover is one of the ways to measure employee morale. If those employees begin working for competitors, competition can benefit from the firm's investments in employee training. In contrast to negative effects of turnover, small and consistent turnover benefits some businesses. New talent can keep the company's ideas innovative and add to the workplace culture dynamic.

Conclusions

The company is said to have low turnover, however there is no data to confirm. Also, the only lawsuits the company has had to deal with have primarily been with former employees.

Recommendations

Turnover Analytics are the turnover rates including voluntary vs. involuntary turnover. This helps to evaluate recruiting and management effectiveness. High turnover in a particular department can indicate poor hiring procedures by the manager or poor management supervision. Low turnover is always a plus in any circumstance, however in order to protect the company from disgruntled employees that leave that follow legal suit with the company. It is in the interest of NEWCO to ensure that the morale of the staff is up and they are continually happy with the status of the business. Some of the interviewed employees recommended better “team work”. Also mentioned that some people have too many responsibilities which affect their morale because there is “no hiring” and some employees are leaving, so they are getting more work

Low turnover is always a plus in any circumstance, however in order to protect the company from future turnover, the following steps can be helpful:

- Keep employees feeling their work is more than just a job. Everyone wants to feel that his or her work has a higher purpose. Sometimes, though, that purpose gets lost in the day-to-day grind.
- Take time to creatively celebrate accomplishments. It's natural to focus on what's ahead rather than reflect on how much has been achieved. Taking time to reflect, though, helps employees appreciate how much they have Done.
- Grant time off to employees to pursue projects they are passionate about. Personal projects can provide an energizing break from regular responsibilities and can serve as a source of innovation for a company.
- Mix up the company's usual way of doing things. Departing from the customary routine of meetings and cubicle life can go a long way toward building morale For example, during an all-employee meeting day, as the firm staged a neighborhood basketball tournament; each group came up with team names, homemade jerseys, mascots, and cheerleaders.

- Don’t forget to have fun. You can create a “Fun Day” where employees are invited to play in a monthly Game Day, an in-house competition with activities ranging from Trivial Pursuit to Wii bowling matches. The company can also offer quarterly fun rewards when staffers achieve certain goals, such as hockey games, casino nights, or playdays at at amusement parks. Team-building events can

HR AREA BAR	KPI PERFORMANCE
	4

include a scavenger hunt.

- Train employees to develop positive attitudes.
- Offer time away from the office to do some good. Another way to build employee morale and camaraderie is through community service for a volunteer organization of their choice. Departments also take on volunteer projects as a group.

Operational Evaluation

G³ conducts a thorough evaluation of all processes and procedures involved in distributing the company's service or product from start to finish. Because the company's operational components include a range of elements affecting the company's performance, G³ reviews the following areas in greater depth to evaluate the range of possibilities for improvement within the company. Those operational evaluation areas are the following:

- Operational Processes and Procedures
- Quality Control and Assurance Management
- Service or Product Diversification
- Distribution of Products and Services
- Owner and Management Evaluation
- Supply Chain Demand
- Equipment Evaluation
- Infrastructure and Appearance of Location(s) of Operations
- Regulatory Controls
- Rent, Leases and Mortgages
- Information Technology Systems and Utilization

After the company has gained an understanding of the nature of function in each of these areas, we offer a thorough analysis of our methods of investigation, leading to our conclusions and recommendations regarding that area of interest to the company.

Conclusions

NEWCO is a very impressive company operating in what has been a very difficult economy and sector in recent years. People will always need a place to live so the Long-term Rental Business will necessarily be more stabile, especially with high foreclosure rates and difficult to obtain Real Estate Financing. The successes in the Vacation Rental realm speak to an excellent company when discretionary and luxury spending have decreased markedly.

However, there are significant opportunities for improvement. Some Items are already known and plans exist to improve these weaknesses. Notable are the IT systems and the Equipment Utilization.

The lease expense per employee is really quite high in Mountain Town based mostly on the facility being much larger than office utilization standards would dictate. The lease rate in Pax Valley on its face is quite high. However, this lease provides John Smith's compensation rather than drawing a salary which is perfectly legal and ethical. However it makes the lease expense per employee seem abnormally high. The utilization of the space on the square footage per employee basis is under 110 square feet per employee; a phenomenal feat for the Company.

Operational procedures do not exist, except for that of the QA Manager and for Key Control. Therefore, employees cannot be trained to and held accountable to those standards for production efficiency or quality standards.

Customer feedback which is solicited is good with an 85% positive rating. Unsolicited feedback is quite different with 56% of respondents rating NEWCO at 1 star out of a possible 5. Certainly this is uncontrolled and unsolicited feedback but it can actually have a much bigger impact on the company than solicited feedback which is maintained within the confines of NEWCO. Almost no company can ever achieve a better than 90% positive feedback in online uncontrolled reviews and the buying public knows this. However such a negative feedback rating does give many customers pause.

It is a concern that CFO, Spencer wears so many hats and that there is not a clear path to recovery if he is unable to continue as he is currently utilized. No one is irreplaceable, but we feel this would be an extremely difficult to replace position.

Recommendations

G^3 would like to see NEWCO implement the improvement strategies that Spencer has already defined, recorded in the detailed review of the operational areas.

G^3 would also recommend that the property in Mountain Town be evaluated for more effective utilization.

The biggest opportunity for improvement comes in developing standardized procedures and training employees to those procedures. This will have two important pay backs:

- The consistency gained will greatly affect the customer experience and that will be reflected in both in house and uncontrolled customer reviews.
- NEWCO will be able to hold employees accountable to production standards.

Operational Area BAR	Ops Performance
	771

Detailed Operational Review

24. Operational Processes and Procedures

An operations process and procedures evaluation documents the effectiveness and efficiency of the business's operational activity in relation to their overall goals. Procedurally, G³ reviews and appraises the soundness of the efficiency and effectiveness of internal controls as compared to measures of finance, productivity, inventory, time commitment and other areas.

Objective

The goal of G³'s assessment is to promote and support improvement and efficiency along with ensuring compliance of existing operational structures and processes. Based on the information gathered during the diagnostic audit, risks and concerns will be identified along with the success of certain policies and procedures.

Investigation

The NEWCO offices were visited on two separate occasions and an interview was conducted with Spencer Jones to better understand Operational Process and Procedures.

Observations

Documents do exist covering the Quality Assurance Manager Duties and Responsibilities and Key Control Procedures. However, that is the extent of the Operational Process and Procedure Documentation. Training is fast, furious and ongoing. New employee orientation consists of sitting with Spencer to complete the legally required documents, such as an I-9 and W-4, a software orientation and then 'Huddles' for on the job training.

Documents that do exist are not subject to revision control and employees are not required to sign off on having been trained to the document nor does it become a part of their permanent employee record.

There is no mechanism in place to measure employee output such as incoming calls handled per hour or close ratios for Leasing Agents or Square Feet cleaned per hour for housekeeping personnel.

One thing that NEWCO would like to accomplish is utilizing more automation in their operations. They have put in place most of the system to enable and encourage online bookings but are running into challenges getting the technology adopted by the vacation rental clientele.

Conclusions

NEWCO can best be described as a hyper-growth company with an incredibly dedicated and talented staff, particularly at the executive level. The team pulls together to answer questions quickly and on the fly and always with the best of intentions. There is a sense that everyone on the NEWCO team has the company and the client's best interests at heart.

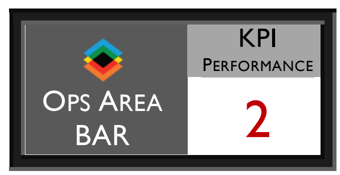
However, at this point on the growth curve NEWCO can benefit from additional structure, training and production accountability. The benefit of this approach will be discussed more in Section 25, Quality Control and Assurance Management.

Recommendations

G^3 recommends that NEWCO have written procedures for all positions and that all employees are trained to the applicable procedures for their position. The priority procedures should be those dealing with the customer experience. Documents must be controlled by a robust revision control policy and then training provided and documented for every procedure revision. A system needs to be developed so that training is documented and is signed off by the trainer and the trainee. Training acknowledgement forms then need to become a part of the employee's permanent file.

We also recommend that production standards, as well as quality standards, be developed and implemented and that realized production is a basis for performance improvement plans and employee reviews.

Finally, automation is the key to efficiency. NEWCO has already implemented the infrastructure for online bookings. But, not surprisingly, the typical vacation rental client still prefers the human touch. NEWCO's transition plan of walking the customer through the first booking online will take longer initially but will pay dividends on future bookings as the customer becomes familiar with the system.



25. Quality Control and Assurance Management

A Quality Control and Assurance (QC/QA) Management procedures describe how a product and/or service is developed and delivered. This includes overall responsibility, development areas covered, product or service checklists, safety concerns, visual inspection, testing criteria, material verification, storage handling, qualified workers, satisfactory working conditions, activity guidelines, work in progress and finished goods inspection and storage, defect handling as well as stop work guidelines. Quality Control (QC) and Quality Assurance (QA) terms are used interchangeably to describe procedures (what is Done) and testing activities (how well was it Done).

QC/QA for a service company is measured with a review of Client criteria for quality, schedule and price. Meeting Client expectations begins with marketing and continues through the sales, contract signing, project design, implementation, review ending with Client satisfaction and complete payment for services. For a product company, quality control and assurance programs include additional metrics such as safety, consistency, inventory control, return policies, packing and shipping standards.

Objective

The key to reaching the objective of a QC/QA observation is a three-fold method of investigation asking and answering the following: Are there written procedures? Are the procedures followed? Does management understand how and when to stop production of goods or distribution of services in support of the QC/QA program?

Investigation

The NEWCO offices were visited on two separate occasions and an interview was conducted with Spencer Jones to better understand the Quality Control System. Additionally G^3 checked Indirect Customer Feedback on Yelp.

Observations

In a service oriented business direct customer feedback, repeat business and referrals are the best gauge of Quality. Spencer estimates that about 50% of their business is due to repeat business. He also explained that the vacation reservation software reaches out to each client with a survey after their stay. They see a return rate of 50-60% of previous vacation renters, with an 85% positive feedback rating. There is not currently a system in place to track referral business.

Direct feedback includes things such as customer comment cards, etc. Negative reviews from direct feedback are a focus topic during management meetings.

With respect to Indirect Customer Feedback, i.e. internet reviews such as Yelp, the reviews are mixed and highly polarized. The Yelp summary is in the following table:

Rating	No. of Votes for Rating	% Votes for Rating
1 star	14	(56%)
2 stars	2	(8%)
3 stars	1	(4%)
4 stars	1	(4%)
5 stars	7	(25%)

While not well documented, NEWCO does have a process for handling complaints for short- and long-term tenants. Tenants and clients are notified of their contact person in case they need customer service. They do have specific people to contact in case there is a concern. If that person is unavailable for any reason NEWCO utilizes an all hands on deck approach to taking care of the customer. Whomever can take the call at that point in time handles the problem.

Conclusions

50% repeat business and an 85% positive direct feedback are strong indicators of a well-run quality system.

Indirect customer feedback is uncontrolled but also very valuable. It is clear from NEWCO's Yelp reviews that previous clients have taken more time to post a negative review than a positive review. However, these uncontrolled forums can have a huge effect on business. They can also indicate areas needing improvement. It remains clear that uncontrolled reviews are skewed heavily to the negative and that there is no clear front runner of concerns.

Recommendations

The customer experience being so variable speaks to the value of well-documented and utilized procedural and training systems. We recommend that procedures, especially those concerning customer interactions and the booking process be developed and used for training. Variable data speaks to the need for consistency.

We also recommend that each Indirect Customer Feedback receive the same scrutiny that Direct Customer Feedback receives during management reviews, acknowledging of course the uncontrolled and anonymous nature of online reviews.

G^3 also recommends that a more comprehensive system be developed to track and reward customer referrals to widen the base of the current referral system.

Ops Area	KPI Performance
BAR	3

26. Service or Product Diversification

Company revenue can be earned by selling services, products or both. An example of a successful business with two revenue streams might be a firm selling complex electronic products and then deriving additional revenue from consulting services, product maintenance and/or product utilization support. Expanding revenue by adding a new product or service line to complement existing revenue streams might also be explored.

Diversification may include developing new income streams and profit potential from related areas in the current industry sector. By building on the current corporate brand and providing additional value to the existing Client or Customer base, the company should generate new revenue. When considering new income streams, the company should always research the need for the product or service, build on its strategic position in the market and develop new income streams with strong profit potential.

Objective

In this case, our objective is to determine if the services revenue is as profitable as the product revenue or if the services revenue offsets the losses from the product revenue. Diversification encompasses two separate but related objectives. Initially we review existing services and products to determine if there are too many or too few services and/or products in the business. Secondly we determine if new services or products could be developed by the existing company with minimal interruption of service and support.

Investigation

The NEWCO offices were visited on two separate occasions and an interview was conducted with Spencer Jones to better understand Service and Product Diversification.

Observations

NEWCO is well diversified within the property management space managing both Vacation and Long Term rentals. An interest in remote property management has also been expressed. Booking and all office functions can be handled out of the Pax Valley office. However, Housekeeping, Maintenance, property delivery, etc. will all need local support. There is currently no infrastructure in place to deliver these services at remote locations.

When queried about the competitive advantage NEWCO offers over local property management firms it is Spencer's opinion that NEWCO can do it better.

The management team at NEWCO seems to be running at near capacity and it is unclear who would manage the remote property management business.

Conclusions

Remote property management is certainly viable for longer term leases. It may not be as appropriate for vacation rentals because of the hands on nature of the business.

Recommendations

G³ recommends making the processes and procedures more robust for the local business as evidenced by higher customer satisfaction results before moving into remote management arenas.

Ops Area	KPI Performance
BAR	4

27. Distribution of Products and Services

Distribution channels fall into twelve general categories that are used individually or in groupings by a company in order to reach and maintain loyal Customers. We determine which distribution channel(s) are most appropriate and cost-effective for the company. Management needs to periodically review its options in order to build and maintain a loyal customer base, remain competitive, keep costs in line with product or service pricing and to ensure that the distribution channel option(s) continue to match the company's mission.

Distribution channels vary depending on company line items or groupings of products and services. The nature of the product or service may change over time. Marketing campaigns may need to change to better support the distribution path from the company to its clients. Marketing plans (product, promotion, price and placement) often include distribution of product and service in the placement discussion.

Objective

Investigation results in documentation of existing distribution channels, calculation of the most cost-effective choices and determination if any changes need to be scheduled and implemented. Distribution channels need to favorably compare to competition, be cost effective versus cost of product and/or service and support the company's vision.

Investigation

The NEWCO offices were visited on two separate occasions and an interview was conducted with Spencer Jones to better understand the Distribution of Products and Services.

Observations

The customer experience ratings are variable on the reservations process and several reviews note variances between the property as advertised and the property as delivered. Specific to reviews on reservations, unresponsiveness is cited a few times. On the property variances, some refer to cleanliness and some to the quality of the property and/or the neighborhood. NEWCO also takes several hits on timeliness of repairs. Again, as a general rule, reviews are polarized as either very positive or very negative. The variance speaks to inconsistency in the delivery of the product which includes the reservation process and the property.

Conclusions

In this industry, getting consistently high reviews will be extremely difficult because NEWCO is not in control of all aspects of the property or maintenance, yet your reputation will take the hit for any stated customer dissatisfaction. Long-term rental repairs are a prime example.

NEWCO cannot control an owner's refusal to make repairs but NEWCO still takes the hit in the forum of public opinion. Also, an owner may require that properties are oversold as to their actual condition and/or location. It's a fine balance. In the era of uncontrolled public reviews it is difficult to be all things to all customers, i.e., the long or short term tenant and the owner.

Recommendations

Responsiveness is paramount in the service industry. It is often said that a customer will soon forget what you said or did but will never forget how you made them feel. Employees should be retrained n the importance of timely customer service.

Ops Area	KPI Performance
BAR	3

Because it is NEWCO's reputation that is on the line every effort has to be made to ensure customer's expectations are managed. If property and/or neighborhood descriptions are less than accurate they should be updated.

28. Owner and Management Evaluation

One portion of investigation in this area of interest is to evaluate whether or not the owner *is* the company, or the cornerstone for the company's performance. Similarly, management must be addressed as to how effective they have been in their service to the company in the same ways. G^3 evaluates whether or not the management is achieving the enterprise's goals and serving the needs of the business to their utmost abilities.

Objective

G^3 determines the scope of the responsibilities of the owner and management positions within the company and then evaluates how well they are performing based on the goals and interest of the company.

Investigation

The NEWCO offices were visited on two separate occasions and an interview was conducted with Spencer Jones to better evaluate the Management Team.

Observations

The management team is a strong motivated team of leaders. They each have a vested interest in the success of the company and even if they didn't, their work ethic would be to deliver the very best for the company, the employees, the clients and themselves.

Employee management and evaluation is very interactive and proactive. The employees' thoughts, feelings, opinions and growth potential are highly valued as evidenced in the format of their employee reviews.

Spencer Jones is a key employee, if not by strict definition, he is certainly functionally key to the operations of the company. He wears many hats including, but seemingly not limited to, finance, HR and IT.

John Smith is quite proud, and rightly so, that he believes that if any of the management team were not able to come to work then the operations of the company would continue unimpeded.

Conclusions

There is cause for concern that a backup plan for all the functions that Spencer provides is not clearly evident.

Recommendations

From an Operational point of view and from a Risk Management point of view G^3 recommends that Spencer's roles within the company be evaluated from a disaster recovery point of view.

Ops Area BAR	KPI Performance
	4

29. Supply Chain Demand

The supply chain includes the dynamics of all moving pieces in delivering a service or product, including the human capital, technology, activities, information and resources needed to move it from the supplier to the customer[3]. Every part of the service or product delivery is important to the overall success of a high-functioning business model. Evaluating the coordination of these processes is essential to the business's success and one area that G^3 looks to as an area to optimize.

Objective

G^3 investigates the supply chain performance from a logistic, strategic and holistic perspective in that we look at the overall nature and benefits of the supply chain process.

Investigation

[3] Supply Chain. *Wikipedia, The Free Encyclopedia*. http://en.wikipedia.org/wiki/Supply_chain. March 11, 2013.

The NEWCO offices were visited on two separate occasions and an interview was conducted with Spencer Jones to better understand the Supply Chain.

Observations

The NEWCO supply chain is really quite simple with multiple redundancies in reservations booking, housekeeping, maintenance, etc. While trying to get its financial house in better shape NEWCO is not replacing vacancies due to attrition.

Conclusions

NEWCO is in good shape to deliver its product. As attrition occurs the roles and responsibilities are being distributed among existing staff. We do not see a problem at this point with that approach.

Recommendations

We recommend NEWCO keep an eye on the distributed workload and watch for stressors. These can come in the form of employee fatigue and/or morale issues or degradation in the level of quality delivered.

Ops Area	KPI Performance
BAR	4

30. Equipment Evaluation

G^3 looks into the quality of equipment the company houses and how well the equipment is functioning. Should the company rely heavily on the performance of certain equipment to function properly, emphasis will be placed on those items. For instance, many companies rely heavily on the function of its computer system, internet connection and cell phone service. For others with manufacturing operations, equipment is central to operations for a variety of reasons that require a completely different range of evaluations. G^3 will look into the equipment that is integral to the company's success and view how it measures up against standards of performance.

Objective

Evaluate the company's equipment and determine if it is up to standard measures of performance, and/or if there is room for improvement.

Investigation

The NEWCO offices were visited on two separate occasions and an interview was conducted with Spencer Jones to better understand Equipment Utilization.

Observations

Other than office equipment, NEWCO is not dependent upon Equipment for its operations. Spencer has already identified that there are unnecessary redundancies with Printer/Copier/Fax/Scanner equipment and is making moves to eliminate those redundancies.

Conclusions

NEWCO already has corrective actions identified and being implemented.

Recommendations

Implement the already known solutions.

Ops Area	KPI Performance
BAR	4

31. Infrastructure and Appearance of Location(s) of Operations

This section of the audit reviews the facilities for current functional performance and an overview of maintenance conditions of areas of operation. This evaluation should help in formulating ideas for developing budgets and planning necessary courses of action to improve any areas that may be stunted in infrastructural capability.

Objective

G^3 conducts an inspection of facilities and identifies any possibility of deficient activity when measured against company performance expectation or other norms to ensure the facility is functional and serviceable.

Investigation

The NEWCO offices in Pax Valley were visited on two separate occasions.

Observations

The facility is clean, extremely organized in the public domain and very classy. It projects a first rate image and gives clients and potential clients a real sense of luxury forthcoming on their vacation and that this is a very successful company that can stand behind their needs in a long term rental.

Conclusions

The image is First Rate and encompasses the "Pax Valley" feel clients come back for.

Recommendations

None.

Ops Area	KPI Performance
BAR	5

32. Regulatory Controls

Operational regulatory controls entail all limitations or regulations the company may have in place in compliance with either a regulatory agency or company policy. Investigation in this area seeks to gain information about the company's current control mechanism in order to ensure high quality operations. Regulatory standards can lead to high qualities of health, safety, productivity, to substantial cost savings and can decrease variability in operational quality.

Objective

Upon gaining understanding on regulatory controls the company has in place and investigates if internal controls are adequately measured and defined. G^3 looks to identify areas of regulatory control that can be improved or ameliorated. Should any area of regulatory controls need revision, G^3 will recognize the elements of the alternative direction and offer any recommendations based on the benefit of modification.

Investigation

The NEWCO offices were visited on two separate occasions and an interview was conducted with Spencer Jones to better understand the Regulatory Controls.

Observations

NEWCO is regulated by the New Mexico Real Estate Commission (NMREC), which due to bandwidth can audit only about 2 to 3% of regulated businesses each year. NEWCO has had an independent compliance audit which they passed handily. They also work closely with the NMREC to develop regulations governing property management operations. NEWCO is extremely clean when it comes to the major deficiency in the eyes of the NMREC – comingling of funds.

Conclusions

NEWCO is in great shape when it comes to Regulatory Compliance of the NMREC and it maintains a great relationship with the agency.

Recommendations

None.

KPI PERFORMANCE	
OPS AREA BAR	5

33. Rent, Leases and Mortgages

Operational locations and equipment may not always be owned by the company, and often are not. G³ investigates outstanding rental and lease agreements, and mortgage rates on property owned. Current and favorable market rates on rent, leases and mortgages will be assessed to ensure the company is in the optimum position it can be relative to these costs.

Objective

G³ will establish the status on all rent and lease agreements and mortgages the company has undertaken on both property and/or equipment and assess them based on market rates best available to the company.

Investigation

An interview was conducted with Spencer Jones to better understand the Corporate Lease Obligations and Expenses.

Observations

The Tierra Vista office services two (2) employees at 700 square feet, and is leased for $700/month, which comes out to $12 per square foot and 350 square feet per employee.

The Mountain Town office serves two (2) employees, it is 3000 square feet, half of which is residential and could be leased out, and leases for $1800 per month or $7.20 per square foot and 1500 square feet per employee.

The Pax Valley office is 4500 Square Feet, serves 41 employees and leases for $13,140 per month. That is $35.04 per square foot and less than 110 Square Feet per employee. NEWCO is extremely efficient in the use of the square footage on this property. At first look, the rental rate seems way out of line. The property is owned by *Smith Management, LLC*, John and Stella's real estate portfolio. John takes no salary from NEWCO. His income is derived from the real estate used by NEWCO.

Conclusions

The Tierra Vista property is on par with respect to size and cost.

The Mountain Town property is quite large for its use. The rate per square foot is good but it is simply more real estate than is needed. It may be that this property is all that is suitable in a small place like Mountain Town.

The Pax Valley property is being used very efficiently as far as space is concerned. The fact that John's income is derived largely from the proceeds of the lease, rather than from salary, makes the simple financial ratios not applicable for this property.

Recommendations

The only recommendation is to make better use of the square footage in Mountain Town. If the property could be divided and subleased as a vacation rental or residence this would be a much more effective use of the real estate.

OPS AREA BAR	KPI PERFORMANCE
	4

34. Information Technology Systems and Utilization

Information technology (IT) impacts every department in an organization and usually provides online, interactive, real-time data between and about every department and function within a business. IT systems support many functional areas of a business including finance, sales and marketing, research and development, operations and Customer support. Whether in-house, off-site or in the cloud IT systems impact revenue, earnings and value of a business.

Objective

All business applications and systems are identified regardless of platform; we determine if and how certain IT costs can be directly tied to revenue-producing products or services in an organization. IT expenses are not and cannot be an overhead only item given current application systems and instant access to information. Since IT is integral to most operations, we review security, backup and disaster recovery systems and procedures to ensure that they provide adequate asset protection, minimum downtown and maximum access to functional areas of the organization. We examine written security procedures manuals and examine computer production records. Inevitably, problems exist with IT and we review problem logs to determine weakness in IT systems and utilization.

Investigation

The NEWCO offices were visited on two separate occasions and an interview was conducted with Spencer Jones to better understand the IT systems and their Utilization.

Observations

Spencer handles all of the IT needs for NEWCO in addition to his CFO and HR responsibilities. The systems are running adequately but according to Spencer they are stressed. As is the case with most hyper-growth companies, the IT system has grown incrementally over time as needs dictated. The resulting system is not as clean, simple and robust as we would like to see. Spencer has a plan in place to improve the reliability and simplicity of the system and actually provide significantly more room in the IT closet.

Conclusions

The system as it stands is not as robust as we would like to see but Spencer has a non-documented plan he would like to set into place.

Recommendations

As with the equipment section, Spencer already recognizes the deficiencies and has a plan to correct them. Our recommendation is to implement that plan. The presence of a plan significantly raises the Bar Score. However to reach the highest score requires implementation.

Ops Area BAR	KPI Performance
	4

Sales and Marketing

G³ evaluates sales and marketing performance in order to assess how revenue can increase based on the foundations set for success. We look specifically at the ROI on marketing investment as it translates into sales revenues and build on strengths while seeking to identify possible weaknesses. The assessment includes a thorough review of the following:

- Sales and Marketing Program Evaluation
- Client Revenue
- Service and Product Returns
- Goods and Services Pricing
- Inventory Turnover
- Sales Personnel Analysis
- Customer Service

The assessment review all aspects of sales and marketing including administration, leadership, communication, innovation, motivation, technical knowledge and how it relates to figures in profitability and sales. At the end of the day, the most important aspect of all sales and marketing is ensuring the target market is satisfied with the product or service, and G³ does a thorough review to ensure all performance objectives are met or exceeded.

Conclusions

Client is in a very strong position compared to its local competitors, but has not exploited all its opportunities for growth. It remains potentially vulnerable to disruptive business models from outside, such as airbnb.com, which started with the undesirable, low end of the market, but is quickly moving up the value chain. The fee structure for long-term rental property (LT) management causes total revenue to decline year over year as satisfaction (repeated leases on the same property) increases. This contributes to a first-glance perception that the business is unattractive.

Recommendations

1. Simplify and centralize marketing expense reporting so that it is both visible and accountable.
2. Capture and codify sales knowledge to accelerate learning – and revenue – curve for new sales agents.
3. Expand use of automated sales via the website.
4. Exploit large Facebook following and positive reviews in social media.
5. Model and migrate to alternative fee structures that will generate increasing total LT revenue year over year.
6. Expand relationship with coupon partners to include more cross-marketing. (Already under consideration.)

SALES & MARKETING AREA BAR

S&M PERFORMANCE

733

DETAILED SALES AND MARKETING REVIEW

35. Sales and Marketing Program Evaluation

Marketing encompasses all the activities that seek to understand and identify customer needs and wants, bring your product or service to the attention of potential customers, elevate yours above other solutions, and in general increase the propensity of the customer to buy. In some companies, marketing also encompasses product and channel development and pricing, as well as lead generation – nurturing the prospect through continual contacts until they're ready to buy. The individual activities can include market research, branding, advertising, point-of-sale brochures and displays and public relations as well as direct marketing via mail, email, web or telephone, and the amplified word of mouth that social media provides.

Sales analysis focuses on the end-stage of the process begun by marketing – the direct contact with customers through the conclusion of a purchase. Obviously, marketing and sales can overlap and should be coordinated. In traditional companies, sales people engage in a range of activities often through structured incentive programs. In e-commerce, the transaction is automated.

Objective

Sales delivers the essential nutrient of any company (revenue, see below), so the first objective of this evaluation is to make sure the company has clear, intentional, repeatable and scalable, measurable, cost-effective and improvable plans for sales. Since marketing feeds sales, the second objective is to make sure the marketing plan also satisfies those criteria, and coordinates well with the sales program.

Investigation

Sales Statistics Navis Campaign Analysis 2012.

Questions:

- How does Facebook cost $10,000?
- Why so many Tierra Vista campaigns?
- Who ran the Google AdWords campaign?
- What is the actual total cost of each campaign? Back-calculated from cost/answered x
- What is ROI?
- What costs are included? Pay-per-click? Toll-free line? Agent/telephone answerer compensation?
- Are there other ways to track campaigns besides unique toll-free numbers, or is that the best, based on experience?
- What is included in Advertising/Marketing line in SG&A?

NEWCO's facebook page has an impressive 20,969 Likes. Question: Is NEWCO posting offers regularly (doesn't have to be more than weekly.) What days of the week get the most response?

How long a lead time do most rental prospects take for bookings? What is seasonality of Google searches? Are campaigns timed to that lead time?

Website: kokoproperties.com

Alexa ranking (where #1 is the world's most popular site): **2,767,959**

Links in: 11 -- "view source" for keywords (below)

- Sample local competition:
  - PaxValleyvacationrentals.com (unranked)
  - Twohouses.com (unranked)
  - AquiPaxValley.com
- Comparable sites, elsewhere:
  - Beautifulmornings.com
  - Valleycabins.com

Observations

190+ campaigns include many that are defunct, yet costs continue to be accrued, making it appear as if most of the campaigns are money-losers. Some costs not reflected here include the cost of maintaining this spreadsheet (190 separate lines), and the website itself.

Most marketing campaigns are targeted at potential renters, yet the main limit on growth appears to be the scope of the inventory (properties available for rent).

One proposed campaign would run ads in the Delawarian's Home (monthly) and/or Real Estate section (weekly).

Interviewees reported that SEO has begun recently. As yet, there is little evidence to show that it has begun.

Website slogan is "Serving…since 1978."

Web domain in use is NEWCOproperty.com while unrelated business owns

NEWCOproperties.com (Judy Van Ness, Denver, CO, since June 2000)

Metatags (SEO): Pax Valley Vacation Rentals, Pax Valley Long-Term Rentals, Pax Valley Event Rentals, Pax Valley Commercial Property Rentals

Conclusions

The great number of different campaigns reveals a valuable interest in variety of tactics. It is good to experiment. However, the system for monitoring ROI (a single spreadsheet) doesn't reflect actual costs – even if it does show revenue. This makes it difficult to evaluate the value of alternative marketing efforts as objectively as the use of a spreadsheet suggests.

Other opportunities for improving marketing impacts appear to be out of the span of control of the marketing director.

Recommendations

1. If one were to believe the spreadsheet, one should stop advertising in Tierra Vista immediately—and save $114,000 out of $197,000 total advertising expenses listed, without affecting revenue at all!
   Instead, the chart of accounts should be reorganized to group revenue and expenses by function, not by type, or at least to allow it as a filter. In other words, all marketing expenses should be segregated from other expenses. Organizing expenses by "type" (example: Navis is technically a subscription) makes goal-oriented analysis unnecessarily difficult.
1. Change website to NEWCOpropertymanagement.com (already owned) to capture SEO value and to make branding consistent.
2. Make metatags for key words and page description unique (or at least no more than overlapping) for different pages of the website. SEO also includes quality links from directories, special

3. Campaigns aimed at real estate agents (for the referrals) do not need to take the form of paid advertising, at least not in in-efficient print. The Wednesday meetings of active agents offer direct interaction plus place to distribute flyers – at least for members of SFAR. Print advertising should be limited to TOMA-stle: small, simple brief messaging, repeated regularly.
4. Facebook is seriously underutilized, considering client's 21,000 Likes. Regular posts build engagement. Promoted posts can be targeted, by state, geographic radius, income and education, gender, possibly even homeownership. This is a good place to reach homeowners directly, especially out-of-state. Although it's annoying that Facebook charges to reach one's own fans, it's still very effective advertising.
5. Color postcards to homeowners whose homes are listed for sale is an inexpensive and targeted marketing medium, worth testing, at least.
6. SEO: At a minimum, the metatags on the site itself should be more varied. Try misspelling "Packs Valley"; add lodging (5x searches), 'Pax Valley nm weather' (low competition, 4x searches). You can also use separate pages to target homeowners.
7. To improve testing of web-based campaigns, use discrete landing pages for each. Google Analytics offers a free tool, and there are several low-cost automated tools for generating targeted landing pages on the fly in response to Google search terms.
8. It's not clear that a branding strategy has been articulated. It should be. It should include a "story" with emotional impact and clear positioning statements.
9. As a salient example the company slogan should be strengthened to stress benefits, not just longevity.

S+M AREA BAR

KPI PERFORMANCE

3

36. Client to Revenue Distribution

Revenue, also known as gross income, is all the currency or other units of fungible value the company receives for its products or services. It is divided between payments received in advance or upon delivery, plus accounts receivable or deferred payments. G³ takes an in-depth look at where revenue streams are coming from and the clientele that provide that income.

Objective

Revenue is the essential nutrient of a company, so it is the first critical measure that a business can exist. The objective is to determine its size, trends over time, and distribution over customers and products.

Investigation

Review financial statements, interview principals.

Observations

The two primary sources of revenue are long-term property management and (short-term) vacation rentals. Long-term property management is inherently more predictable, and theoretically should not fluctuate as much as vacation rental income which is in part subject to weather or climatic conditions: the national news coverage of wildfires will create a spike in cancellations, for example. The company has over 3,000 clients that they work with annually--50% repeat clients, so the impact from external shocks like wildfire coverage is generally minimal.

However, the actual data reported from 2010 through 2013 (projected) show a slow but steady decrease in long-term property management revenue -- down 9% from 2010 through 2012 -- and a steady and significant increase in vacation rental income – up 25% over the same time period. The reason for the decline in LT revenue even as number of properties under management increases is that the client offers a significant discount on repeat business.

The only new income stream of significance is housecleaning, which started in 2010, and reached 15% of the total, or nearly 50% of long-term property management in 2012.

Conclusions

The management team understands that long-term property management should be the stable and higher ROI base for the company's revenue, and is already taking action to attract new homeowners.

It is also exploring and developing new revenue streams that leverage the company's resources and strengths appropriately.

With a broad base of clients, the overall distribution is wide enough overall to ensure enough clientele to meet operating cost demands and revenue goals.

Recommendations

Look for more opportunities to derive revenue from existing client base, as you've done with housecleaning.

S+M Area BAR	KPI Performance
	4

37. Revenue per Service and Product

The company may offer a variety of services and products to clientele. G^3 looks for what the revenue returns are on each of the services or products the company currently markets and sells. We take a closer look in order to review how profitable the company has been when isolating the services/products from all revenue generated.

Objective

Ensure each service and product revenue is isolated and evaluated for overall health and growth of the respective value it brings to the company and whether or not it meets the company's goals.

Investigation

Review financial statements and interview principals..

Observations

Happily, long-term property management direct expenses decreased by a greater percentage than revenue did over the 2010 – 2012 period. Unhappily, direct vacation rental expenses increased by a greater percentage than the revenue directly associated with it over the previous three years.

It is unclear whether marketing expenses are allocated clearly to each revenue stream.

Conclusions

Management is aware of the importance of ROI and controlling costs for its main revenue sources.

Recommendations

The client should ask employees to take collective responsibility for controlling vacation rental costs – by sharing the relevant financial information with them, tasking them to work together to identify each element of cost in detail, and to brainstorm ways to control them. Then reward them collectively for success, perhaps through a gainsharing formula. Similarly, the success in driving down long-term property management expenses should be modeled and rewarded.

S+M Area BAR	KPI Performance
	3

38. Goods and Services Pricing

Pricing determines the rate of exchange of revenue for value between the customer and the company. There are many pricing approaches: "cost plus" or time and materials plus a percentage for profit; market pricing which may aim to undercut competitors, sit in the middle of competitive prices or be positioned above as a luxury or high quality leader; as a loss leader to encourage other purchases; various kinds of auctions, in which the price is established in an exchange of bids and offers in various structures; discounts earned for volume, frequency or loyalty; prices based on other characteristics of the buyer or the circumstances.

Objective

If too few customers pay a price that allows the company to fund its ongoing operations, then the company fails. The objective of the evaluation is to determine the appropriateness of the pricing strategy considering customer perception of the value delivered, and the cost of delivery.

Investigation

Review financial statements, client website and competitive sites to determine whether prices for vacation and long-term rentals are in line with market value and costs.

Observations

Despite being the largest single property management firm in its territory, client's fraction of all rentals is still small, so outside forces control pricing. Also, having grown by acquisition, many prices are inherited from the purchased companies. New properties are compared to existing properties, and priced accordingly. Client's inventory is large and diverse, so there is no single segmentation, such as "luxury" rentals, that can be used to set an overall pricing strategy.

Upfront one-time leasing fee for new properties is 50% of one month's rent. Fee for renewal of existing properties is 25% of a month's rent.

Conclusions

The company sets prices based on the market and how each property compares to others in its inventory. It does not measure gross margin per property. The fee difference between new and renewal of long-term clients is directly responsible for the year-over-year decline in total long-term revenue, even as the volume expands.

Recommendations

1. Consider a segmentation marketing and pricing strategy. Several smaller competitors focus on luxury rentals, but client's large inventory and service experience may make it possible to compete more aggressively for that segment via targeted marketing, and allow it to charge higher prices than it currently does for those qualifying properties.
2. Calculate and track gross margin per property. While each property is unique and the overall market governs the price range, there may be room for improvement in property selection (avoid properties with higher costs? Target acquisition of properties with lower percentage costs.)

3. Consider establishing general policies for pricing slightly above the competition, and raising prices annually unless there are strong reasons not to.
4. Consider raising the fee for repeat business. The penalty incurred in reported gross annual revenue for the 50% drop in fees is severe, and could well be the most important factor in lenders' negative perception of the business.

S+M Area	KPI Performance
BAR	3

39. Inventory Turnover

Inventory turnover is a ratio that captures the rate at which a stock of unsold goods is sold and replaced. It can be calculated two ways: sales for a given period divided by inventory or cost of goods sold divided by inventory. The advantage of the latter is if inventory is valued at its cost, rather than at the price at which it could be sold. If there are seasonal factors to consider, average inventory should be used.

Objective

The objective of the evaluation is to determine whether the level and method of controlling the level of inventory properly balances the carrying cost against the cost of out-of-stocks.

Investigation

Interviewed management team.

Observations

Long term vacancy rates are under 2%.

Conclusions

Client is using available inventory extremely efficiently, and is limited on the upside by the pace of acquiring new inventory.

Recommendations

As discussed elsewhere, client should increase research and marketing to acquire new inventory.

S+M AREA BAR

KPI PERFORMANCE

5

40. Sales Personnel Analysis

This area of investigation looks to analyze sales personnel based on their overall performance from an individual, team, management and customer perspective. It has been recognized that those salespeople who are more cognizant of their sales performance tend to be more receptive to the introduction of new training or improvement mechanisms for increasing sales numbers.

Objective

Understanding the current system of analysis, review or oversight is the first step, followed by a thorough investigation of salespeople currently staffed. Based on the understanding of the company's performance, G³ will offer any recommendations where improvement is viable.

Investigation

- Reviewed sales statistics.pdf comparing Agent Total Revenue, Leads, Booked, Conversion percentage.

Questions:

- Why do leads vary so much among the Agents? Four Agents cluster around $2,000. Rev/Booked with one high outlier $2,484 and one low outlier: $1,219.
- Reviewed SalesStatisticsNavisAgentLeadAnalysis: Why the big drop-offs between Booked and Complete for Melanie, Trudi, Ursula? Is there a follow-up procedure for the "Not booked?"

Observations

While there is no formal sales training, there is a strong, individualized and group mentorship culture. The variations among agents are due to differing tenure and experience and which markets they happen to start in. Mountain Town, for example, features shorter stays and lower price points overall, but when the agent who starts there has gained sufficient experience, he or she can start representing the more lucrative markets. Follow-up on "not booked" is tracked, and consists of phone calls and frequent, if informally scheduled email blasts.

Conclusions

Although not formalized, the current training and followup approaches appear to be effective.

Recommendations

Formalize training to shorten the learning curve, and therefore the revenue curve of new agents. This will also remove one of the limits on faster growth, including expansion to new markets.

S+M Area BAR	KPI Performance
	3

41. Customer Service

Customer Service is the company's treatment of customers and prospective customers, at every touch point—from casual inquiries to complaints—after the sale. Aspects can include length of time waiting, courtesy and respect shown by company for customer, how patient, knowledgeable and helpful the representative is, how many different representatives needed to be involved, how quickly the issue was resolved, and of course how satisfied the customer is with the outcome. It's an important truism that it's not the initial problem the customer experiences, but the outcome that determines how the customer feels about the company subsequently, and what feedback they give to others.

Objective

Customers' perception of how they are treated, even in apparently trivial exchanges, can determine whether they purchase again and what they tell others. Studies have shown that dissatisfied customers tell from five to ten times as many people as satisfied customers, and social media can now amplify even that disproportionate impact a thousand or a million-fold.

Investigation

Read Yelp, Kudzu, TripAdvisor, Flipkey, YP (yellow pages), AngiesList.com reviews, interviewed management.

Observations

Vacation rental reviews are generally very positive, but longterm renter reviews are decidedly negative. Nevertheless long-term lease renewals are very high, and overall long-term vacancy rates remain below 2%. Company reviews all comments weekly to determine response and to see if standard operating procedures need to be revised.

Conclusions

Even though vacancy rates are low and lease renewal rates high, client reputation, at least for long-term rentals, would appear to be at risk. If market factors should change rental demand or supply, client's poor social media reputation could have greater financial consequences than it does now.

Recommendations

1. Since negative reviews have a greater emotional impact than positive, client needs to improve response to these increasingly influential sites, and to a wider range of such sites. If complaints are unwarranted, say so, calmly and objectively. If a complainer persists after an answer by the company, it's okay (probably better) not to be drawn in.

2. Join Angieslist as a merchant to respond to their impactful comments. (Angieslist members have to subscribe, so their comments carry much more weight than those on open and anonymous forums.)
3. Harvest positive comments (with permission) and use them in marketing.

S+M AREA BAR	KPI PERFORMANCE
	2

Liabilities and Risk Management

Companies face a vast array of laws, codes and regulations that may impact a variety of operations. G³ looks into any potential legal liabilities and risk management as a method for prioritizing and anticipating the most important issues that NEWCO may face.

- Past Threatened or Outstanding Litigation
- Legal Expenses
- General Liability Insurance
- Business Insurance, Resilience and Security

Upon assessing the company's base in each of these categories, G³ offers conclusions and recommendations regarding the company's current status and looks for areas in which the company can benefit from improvement.

Conclusions

In examining NEWCO's risk management posture, the investigator was given access to documents that listed the company's legal expenditures, their contracts and lease agreements, and a sampling of past legal disputes. During an in-person interview, the officers of NEWCO clarified and explained details regarding their legal liabilities. The future or potential legal liabilities facing NEWCO are likely to be routine disputes of a contractual nature with NEWCO mediating between property owner and tenant. Their risk factor is estimated to be low, considering the nature of the disputes, the probability of their occurrence and the financial consequences of their disposition. There is one item of concern, however. The business goal of NEWCO in the intermediate-term, after their debt situation improves, is to expand NEWCO by acquiring other property management businesses and additional rental property. One of the past high-cost legal disputes was a result of NEWCO acquiring another property management business (Johnson/Martinez). While NEWCO learned how to navigate around those legal obstacles, the fact that part of their business model is to acquire other businesses exposes them to future legal liabilities.

Recommendations

G³ recommends that NEWCO conduct an internal review of their processes, procedures and business goals from a risk management perspective. The company has Done a reasonably good job in putting in place risk mitigation strategies, such as retaining general counsel and having a portfolio of insurance policies, but those strategies are inherently reactive. NEWCO can and should take another look, possibly from a disinterested third party who can observe their operations objectively, identify vulnerabilities and develop a comprehensive risk management plan that will protect NEWCO proactively and enhance their overall efficiencies.

Liabilities & Risk Management Area BAR

Risk Performance

737

Detailed Liabilities and Risk Management Review

42. Past, Threatened or Outstanding Litigation

This area of assessment looks at any potential liabilities that the company is dealing with or may have to deal with in the short- and long-term.

Objective

G³ seeks to gain an understanding of all current and potential legal liabilities in order to make an overall assessment as to how they will be or ought to be dealt with over time.

Investigation

NEWCO provided to G³ copies of letters, contracts and complaints describing the legal contention between NEWCO and a former employee.

On April 24, 2013, G³ conducted an interview with John Smith, Qualifying Broker; Jane Smith, Chief Marketing Officer, and Spencer Jones, CFO at the office of NEWCO.

G³ performed an analysis of the past, current and pending legal issues and expenses experienced by NEWCO in relation to the financial, human resources and operational functions of the company.

Observations

Setting aside routine, repetitive legal expenses, (i.e. filing, permitting, accounting, etc.) there are a number of items of concern. In 2008, from February thru June, there were four checks paid out for "contracted legal services." The total for all four checks was $27,077.47, exceeding the average annual legal expenses within a matter of five months. In the latter part of 2008, a total of $15,535.19 was divided up and paid out in monthly installments for a legal issue referred to as

"City Battle." 2008 was an outlying year, meaning that the legal expenses that were incurred and paid out far exceeded the average (by almost a full percentage point) over the eight-year span under examination.

In 2009, the Johnson/Martinez dispute cost NEWCO $7000; the Jameson & Jack settlement set back NEWCO for an additional $6,069.22. In 2010 and 2011, the Gamble case cost NEWCO a total of $15,570.09 in addition to intangible costs due to lost revenue. These legal disputes are such that they cannot be anticipated, given the contentious nature of property issues, contracts and human nature. Although neither NEWCO nor G³ can predict these issues, measures can be taken to lessen the financial impact of protracted legal disputes or mitigate their effects.

The CEO, John Smith, related an anecdote regarding a legal dispute between NEWCO and a vendor for services rendered more than 7 years in the past. He stated that a vital piece of evidence, a copy of the work order, was destroyed years previous, and that the vendor brought up the dispute many years after the event in question. Although this dispute resulted in a low-cost effect to NEWCO, in dollars, it did cost them time and legal fees to resolve it. This dispute also served to spotlight a possible vulnerability in NEWCO's data management and record-keeping systems.

Conclusions

While the dollar amount spent on legal expenses over an eight-year span is low at first glance, it still represents an expense that is reactive, unanticipated and a drain on the profitability of the company. The spike in legal expenditures over the last five years is an anomaly. The occurrences of these legal disputes were due to economic and human resource circumstances, and not due to action or inaction on the part of NEWCO. The probability of recurrence is negligible. Nevertheless, a more in-depth analysis reveals that the financial harm inflicted on the company by legal disputes cannot be adequately quantified. It is easy to appreciate, but difficult to put a dollar value on the harm that a former employee can inflict by illicitly contacting clients of the company and impugning their reputation. The liability and risk classification of NEWCO is low. The financial consequences of legal disputes represents less than 1% of annual revenue, and the probability of recurrence of major legal expenditures (>$10,000) is negligible.

Two of the stated goals of NEWCO is to purchase more real estate assets for long-term and vacation rentals; and to acquire other property management businesses. It is the latter that is cause for concern. NEWCO's acquisition of Frontier caused their current debt situation and exposed them to legal liabilities in which the previous owner of Frontier became an employee.

Recommendations

G³ does not provide legal, accounting or tax advice, although it has a Service Partner network to do so. G³ urges NEWCO to consult with general counsel and their CFO/CPA regarding the validity and feasibility of any recommendations put forth in this report.

Despite NEWCO's low risk classification, G³ has a general recommendation that may bring the percentage of legal expenditures vis-à-vis annual revenue down to 0.5%. G³ urges that NEWCO implement the recommendations outlined in the Human Resources section of the Diagnostic. In doing so, NEWCO will fill the gaps in the HR process in terms of compliance and risk mitigation, and may forestall any future Human Resources disputes between NEWCO and current employees.

In reference to the legal dispute between NEWCO and a vendor regarding an old work order, G³ recommends that NEWCO establish a more robust record-keeping system that maintains or scans documents used in their business, and keeps them in perpetuity or purges them after a reasonable period, i.e. six years for the statute of limitations on written contracts in New Mexico.

When achieving their goal of expansion, G³ urges that NEWCO exercise due restraint and circumspection when acquiring real estate and other businesses, as these activities are the most likely to expose them to legal liabilities. From a risk management perspective the only law that always applies is the Law of Unintended Consequences. While a particular property or business may seem financially attractive, some attention should be paid to the effects the acquisition may have on people and relationships, as these are the primary sources of legal disputes.

Risk Management Area BAR	KPI Performance
	3

43. Legal Expenses

Depending on the legal needs the company must address, internal and external legal expenses are reviewed as one of the focal points of SGA items due to the terms of the relationship with legal counsel and any amount of money that has been paid out based on legal liabilities the company had to fulfill due to the loss of a legal dispute, settlement or legally equivalent process.

Objective

G³ looks at how the company can control legal costs through evaluating each matter that has cost the company an expense and how it is managed in order to reduce legal fees.

Investigation

NEWCO provided to G³ a transaction report detailing the legal expenses paid out by the company from 05/31/2005 thru 01/10/2013. This transaction report also indicated the dates these funds were expensed and to whom.

Observations

The legal expenses paid out by NEWCO to various parties totaled $170,346.23 over an eight-year span, from 05/31/2005 thru 01/10/2013; averaging $21,293.28 annually. This amount represents 0.72% of revenue, using the amount of $2,976,000 in annual revenue as a baseline for reference purposes. While 0.72% of revenue does not appear to be particularly onerous or cause for immediate concern, it is the potential for future elevated legal expenses that need to be addressed. If we average the legal expenses for the last five years (2008-2013), then they represent 0.92% of annual revenue.

The high dollar expenditures were few (City Battle, Johnson/Martinez, Gamble) and occurred for reasons other than through errors on the part of NEWCO. The routine legal costs stem from property-related issues dealing with contracts, vendors, owners and tenants.

Conclusions

As indicated in the previous section on Past Litigation, the source of most of the legal disputes that involve NEWCO stem from Human Resources and contractual issues.

Recommendations

G³ recommends that NEWCO review in detail, and modify their rental agreements, vendor work orders and other contracts used in their day-to-day operations to close any loopholes through which other parties may seek legal recourse for perceived damages. For example, the vendor work order may be modified to include a clause that states that any claims relating to the NEWCO-vendor relationship must be filed within one year of the date of alleged wrongdoing. A word of caution: any clause that reduces the default statute of limitations in the contract applies equally to both parties.

Risk Management Area BAR	KPI Performance
	3

44. General Liability Insurance

General liability insurance, or "business insurance," is the comprehensive system of risk financing to protect the company from legal action against the company. The right insurance will provide the coverage for the company, employees and customers in defending against any complaints, to indemnify, and to settle reasonable claims. G³ looks into general comprehensive liability insurance, director and officer liability insurance, (D&O), and equipment insurance coverage, so as to ensure any public or product risks that exist cover any possible injury or property damage.

Objective

G³ assesses whether or not the general liability insurance the business utilized covers the potential risks or liabilities the company may have.

Investigation

NEWCO provided to G³ a spreadsheet detailing the insurance policies and coverages for the business.

Observations

NEWCO's general liability coverage is $2M, which seems low at first approximation due to the amount of assets (mostly real estate) that is owned by the company. NEWCO does, however, supplement the general liability insurance with additional policies, namely an Employment Practices Liability and Fiduciary Liability policy that covers NEWCO for $1M; business property and liability coverage for their real estate assets, and Personal Errors and Omissions (E&O) Insurance, with coverage for an individual of $100K, and $500K aggregate.

Conclusions

As a general rule of thumb the amount of general liability insurance coverage should equal or exceed the sole proprietor's net worth or a company's book value (total assets minus liabilities). Given NEWCO's current debt situation and its effect on the company's book value, that method of estimating the optimal amount of insurance coverage does not apply in this case.

The current Commercial General Liability policy does not cover products, completed operations or personal injury. Personal injury is covered by Workers' Compensation. The owners/officers of the company (President, VP, COO, CFO, etc.), however, are not covered under the Workers' Compensation policy.

While E&O insurance partially protects employees and the company from the legal liabilities due to errors, omissions, and mistakes made unintentionally in the course of conducting business transactions, it usually does not pay for punitive damages awarded to the plaintiff. Punitive damages normally are awarded if the error, omission or mistake is especially flagrant, negligent or intentional.

Directors and Officers (D&O) Insurance pays for the defense of upper management personnel in lawsuits stemming from decisions they have made or actions they have taken on behalf of, or while representing the company. The types of disputes that D&O policies cover are usually contractual in nature or from shareholders who have been adversely affected by company-wide decisions.

Recommendations

G³ recommends that NEWCO review their insurance portfolio with their agents on an annual basis to ensure their coverages are adequate. Currently, NEWCO does not have shareholders or investors. Decisions made at the company level regarding benefits, employment practices and policies are protected under their EPL insurance. An analysis of the risks in the property management industry versus their company structure indicates that they do not need Directors and Officers insurance at this time. That decision, however, should be made after consultation with their insurance agent.

G³ urges that NEWCO review their Commercial General Liability and their Business Property Liability insurance portfolios to determine if they have a Business Interruption Rider, sometimes called the Business Continuity Policy. It is usually inexpensive and it provides funds to the business so that they can continue to operate in case of a disruptive event that directly impacts their revenue stream. For example, if a fire or power/telephone/network outage were to occur at the main office at 9 Old Pax Valley Trail, the cost of moving NEWCO to a temporary location and setting up another base of operations can be expensive.

The loss of revenue incurred in the interim must also be taken into consideration. To calculate how much coverage NEWCO needs on their Business Interruption Rider, they must first establish an indemnity period. Twenty-four (24) months is a good benchmark to use for a worst-case scenario in which the main office becomes uninhabitable and rebuilding or moving becomes an option. Next, NEWCO calculates annual gross revenues over 24 months with adjustments made due to growth of business and inflation. Add to that the cost of moving NEWCO and setting up operations at a temporary location; this should result in an adequate amount of coverage. An ideal Business Interruption Rider should have no waiting period; the first check should arrive within 48 hours. Also, NEWCO should opt for weekly rather than monthly reimbursements.

Risk Management Area BAR	KPI Performance
	4

45. Worker's Compensation

Worker's compensation a well-known business requirement across the U.S., (eliminating Texas), requiring a company to cover employee medical expenses and missed wages due to being injured while on the job. G³ investigates this area in particular because it provides wage replacements and medical benefits to those that have been injured at their place of work, meaning that non-compliance or compensation to injured parties could cost the company a lot of excess spending.

The State of New Mexico requires businesses to cover employee medical expenses and missed wages due to injuries incurred on the job. G³ investigates this area in particular because it comes in the form of an insurance policy, and as such it is a risk mitigation strategy, without which the company is exposed to legal liabilities.

Objective

G³ looks to ensure that all state laws are followed in regards to having worker's compensation in place and to ensure that benefits rewarded to injured parties are not a significant portion of spending for the company, (i.e. preventative measures for possible injury are in place).

Investigation

NEWCO provided to G³ a copy of the NM Workers' Compensation and Employers' Liability Insurance policy; and a Transaction Report detailing NEWCO's legal expenses.

Observations

According to the Transaction Report for legal expenses, NEWCO paid out zero dollars since 2005 for Workers' Compensation claims. Apparently, the healthcare insurance provided by HealthCareUSA was adequate to handle minor injuries incurred on the job, and there was no loss of workdays as a result. The annual premium on the Workers' Compensation policy is $16,589.00. Most of the employees at NEWCO are in an office setting and do not participate in hazardous work. The storage and maintenance personnel are exposed to workplace hazards due to the nature of their work in warehousing, construction, electricity, plumbing and repairs.

Conclusions

NEWCO has complied with all New Mexico codes and regulations regarding Workers' Compensation and Employer Liability Insurance; the policy expires on July 15, 2013, at which time it is expected that a substantially similar policy will be renewed.

Recommendations

G³ recommends that NEWCO negotiates with Linus Insurance the terms of the policy to reduce the premium. NEWCO should inquire about the Classification Premium Adjustment Program (CPAP) and request a credit be applied to the premium if there is a wide discrepancy in wages paid to NEWCO workers due to differences in job scope and duties. Daniels Insurance should have issued to NEWCO a premium credit application with the current policy.

It is recommended that NEWCO establish a safety program, brief all personnel and hold employees accountable for maintaining a safe work environment. To comply with the Workers' Compensation Administration regulation, NEWCO is required to conduct an annual safety inspection of workplaces and processes.

Risk Management Area BAR	KPI Performance
	4

Such a program may also serve to reduce the actuarial risk perceived by the insurance carrier, thereby causing a reduction in premium.

46. Resilience and Security

Adversity comes in all shapes in forms when running the company. G^3 evaluates just how ready a company is on behalf of erratic events such as natural disaster, cyber damages, death of a key employee and other erratic events that require a systematic and proactive reaction by the company. Resilience refers to a company's capability to respond to unwanted events, and continue operations. Security is the company's preparatory and emergency activities that seek to prevent harm to personnel, property and business operations. Though these events are rare and often unanticipated, G^3 assesses the company's resilience and security levels based upon strategies in place to mitigate a response to such occurrences.

Objective

To evaluate the strategy behind the resilience and security approach to the company's capabilities that is required for an adaptable and thorough response to the risk of potential disruption of operations.

Investigation

NEWCO supplied G^3 with numerous documents detailing their business procedures. G^3 analyzed those procedures and compared them with best business practices in the property management industry.

G^3 conducted interviews during a site visit.

Observations

The business of NEWCO is to manage property owned by others, lease those properties to interested third parties, and collect fees from property owners and rent from tenants. It is a simple concept in theory, but complex in the execution. The reason for the complexity is derived from the large number of properties in three geographic locations; compliance with laws, codes and regulations; managing expectations from both client property owners and renters; and leading a team comprised of full-time administrative employees, and contracted custodial and maintenance staff.

The main question that needs to be addressed when investigating a company's resilience is: do they have the capacity and the ability to respond to various unwanted events rapidly and decisively to ensure business continuity? The key to NEWCO's business is communication –

communication with their clients, tenants, employees and vendors. A disruption in their communication system, therefore, would be the one unwanted event that could adversely affect the business. The source of the disruption is immaterial, whether by fire, power outage or computer virus; how NEWCO responds is the primary concern. According to the Chief Financial Officer, who is also the default Human Resources manager as well as the on-site IT specialist; NEWCO's data is stored on servers at the main office, 9 Old Pax Valley Trail, Pax Valley NM, and backed up using Carbonite®. The CFO has expressed his desire to eventually store data in the Cloud. Every administrative employee has an individual email address tied to NEWCO's URL (@NEWCOproperty.com). For voice communication, the administrative employees appear to use either landlines or mobile telephones as their primary communication device.

NEWCO uses a number of employee procedures that govern how they do business:

- Collections
- Key Control Procedure + Additional Task Memo
- Employee Handbook, Agreement and Non-Compete Agreement
- Quality Assurance Policy
- Vendor Billing and Payment, Vendor Key Memo
- Property Management SOP
- External Vacation Rental Booking Procedures
- Advertising

The keys to the properties managed by NEWCO are stored in a cabinet on the premises of the main office. They appear to be labeled and organized. In their written Key Control Procedure, they use the term "Master Key" to refer to original property keys. Their "Master Keys" serve as templates for duplication purposes only. They are not true "Master" keys in the strictest sense of the term as used in the Security Management field; in other words their "Master" keys cannot open other locks of other properties. In addition to the key control procedure, NEWCO has issued specific instructions to their vendors regarding key control.

NEWCO's main office at 9 Old Pax Valley Trail is a remodeled adobe residence, and was not originally built to serve as a commercial workplace from an architectural standpoint. The building is single-story, but there are occasional steps in the hallways or at the transition areas between rooms. Some of the steps are equipped with ramps. The hallways and rooms are sized for residential occupants.

Conclusions

From the small business perspective, NEWCO is a well-run company. It is profitable, commands a large piece of the property management market throughout New Mexico, and has below average employee turnover. Based on their goal of acquiring more properties and other property management businesses, however, there are a number of actions they may take to position themselves more favorably.

The Chief Financial Officer, Spencer Jones, is serving in a number of different capacities that are normally delegated to separate individuals. As the CFO, he has two accountants who handle the day-to-day fiscal responsibilities. Spencer is also the default Human Resources manager as well as the on-site Information Technology specialist. While he does not fit the standard definition of Key Employee as defined by the insurance industry, IRS or SEC, Spencer is certainly a key employee for NEWCO because of the number of functions he performs for the company.

NEWCO's policies and procedures, while certainly useable, are not presented in an organized, consistent format. They consist of separate and distinct files, usually in MS Word or Adobe, with no cataloging system to identify them as important operational guidelines.

The key control procedure represents the Access Control function of NEWCO's property management business. It is a precarious balance between security and availability. Security is absolutely essential to safeguard people and property; yet access to these properties must be made available for the convenience of employees, vendors and tenants. Both "Master" keys and operational keys are kept on the premises.

NEWCO's main office at 9 Old Pax Valley Trail, as remodeled, is currently adequate to house the business and facilitate operations, although it has a few minor issues due to its original purpose as a single-family residence and the architectural style prevalent at the time it was built. Despite these limitations, the building is asthetically pleasing and has a certain charm that may outweigh its lack of business accommodations.

Recommendations

Please refer to the Human Resources section for recommendations regarding the CFO, Spencer Jones, and his many job functions.

Update the Documents and Records Management system. Documents are policies, procedures and forms used in daily operations. Records are completed, dated and/or signed papers and forms that establish the existence of an agreement or transaction. Both need to be safeguarded. They should be in a form that is not readily altered by unauthorized persons, yet accessible to those who would use them. Specifically, the various procedures that NEWCO uses on a day-to-day basis should be assembled in one location and identified or labeled as such, for example NEWCO Conduct of Operations manual or Standard Operating Procedures. Likewise, the procedures and forms should be revised so that they all conform to a single font on a useable template, with the NEWCO logo prominently displayed. Copies of faxed forms may be adequate for transactional purposes, but they are difficult to read and do not project a professional image.

The NEWCO key control procedure is adequate and strikes a good balance between security and availability. The only recommendation would be to store an extra set of "Master" keys off-site in the unlikely event of a fire or other devastation that would cause the employees to lose access to NEWCO's main office building.

NEWCO's intermediate objectives of cutting expenses and paying off debt may position them to grow the company by acquiring more properties and other competing businesses. To that end, there may come a time in the near future when the current main office location ceases to facilitate their operations and actually becomes a hindrance. G³ recommends that NEWCO make long-term plans to relocate their main office so that their operational capability expands to meet the increasing demands of a growing company.

New Mexico is blessed with beautiful topography and a pleasant climate. We are also free from the natural disasters that plague other parts of the country. We do not have tornados, earthquakes, hurricanes or catastrophic flooding. The only devastating hazards that NEWCO potentially may face seem to be fires, power outages and telephone/network interruptions. While NEWCO has made efforts to deal with possible business interruptions, the company does not have a written Business Continuity Plan.

NEWCO's reaction to an unwanted event should be planned ahead of time. The consequences and impact of a realized hazard may be amplified should there be a delay in the company's response. The steps in developing the Business Continuity Plan are as follows:

- Perform business impact analysis – determine the human costs such as physical and psychological harm to employees, clients, contractors, vendors and stakeholders. Identify the financial costs such as equipment/property replacement or repair, loss of revenue, insurance deductibles, regulatory fines, etc. Intangible costs must also be taken into consideration (stock devaluation, corporate image, reputation, media coverage, etc.)
- Prioritize mission critical elements – assign levels of importance to the various functions of the business that are most vital to continuous operations
- Determine maximum allowable outage time – how much time can the company be closed for business, and still recover from the unwanted event
- Develop recovery time objectives – safety and security of personnel; structural integrity of facility and equipment; repair, replace, inspect, test equipment; resume operations
- Form crisis management and emergency response teams – organizational leaders, on-call contractors, mechanics, plumbers, electricians, IT specialists, etc.
- Establish communication system – select spokesperson; compose separate messages for internal and external audiences; identify primary, alternate, contingency and emergency communication systems
- Develop resumption-of-operation procedures – incorporate the recovery time objectives into a concise process for the business to resume operations

Having a comprehensive Business Continuity Plan in place is an invaluable asset when assessing the riskiness of an enterprise, and is an important component of a Security Management system. The establishment of a robust security management infrastructure contributes greatly to the resilience of a company.

Risk Management Area BAR	KPI Performance
	3

Industry and Market Evaluation

This section looks into the external factors of the company's ability to compete by standards of industry and market evaluation. Though the factors are based on the current performance of the company, G^3 provides a thorough analysis of the following areas in order to offer insights for anticipating future performance:

- Industry and Competition
- Market Dynamics and Share
- Service and Product Market Demand
- Current and Projected Growth Rates

Conclusions

Management is eager to expand the business, is well aware of environmental forces that affect the industry and market, and is open to new ideas from many sources. However, there does not appear to be a consistent, comprehensive approach to evaluating opportunities and risks.

Recommendations

1. Develop and practice a formal process for "future-proofing" the business, such as scenario-planning.
2. Develop a process for evaluating growth opportunities. What resources does each require? Which of those must be added? Is there a way to test the business proposition inexpensively and quickly?

Industry & Market Area BAR	Market Performance
	757

Detailed Industry and Market Review

47. Industry and Competition

Industries grow, plateau, stagnate or decline at different rates, not always in sync with the national or even regional economy. Defining the industry carefully is critical in measuring the company against industry trends and competition. If the entire industry is in decline a company that is declining more slowly is doing relatively well. Conversely, a company that is growing at what seems a healthy rate of, say 10% a year, while its industry is growing at 15% is actually underperforming, and the causes need to be examined closely.

Objective

The objective is to provide relevant context for the performance of an individual company when compared to industry standards and competition.

Investigation

Interview owners, review real estate market news.

Observations

NEWCO growth strategy has been to roll up competition to grow market share even in declining market. This has led to a high level of debt, challenging to service.

Conclusions

The company's strategy is sound – assuming the economy and the local markets continue to rebound.

Recommendations

It makes sense to pause the purchase of inventory in order to demonstrate that it is feasible to pay down the debt from increased profits. However, growth through marketing or new businesses should continue, planned and monitored carefully.

Market Area Bar	KPI Performance
	4

48. Market Dynamics and Share

Market share is the fraction of the total sales for a specific product or service category from all competitors held by one company, over a specific time period. If one or a small number of competitors hold a dominant position, strategic positioning of one's own product against theirs is crucial to overcoming the "switching" cost. Another option is to redefine the market segment. On the other hand, if the client already holds the dominant position, then it becomes harder to grow sales, and they have to be vigilant against upstart strategies. If the market is divided among multiple small percentages, then strategic shifts and increases in marketing may help the client achieve and maintain a dominant market share.

Objective

The goal is to determine the prospects and constraints for sales growth for a product or service in a particular market segment.

Investigation

Interviewed management team.

Observations

Residential property management market in Pax Valley is highly fragmented. Client has a plurality of marketed rentals (many more than other local remaining competitors). It's unclear what percentage of single family homes are available for rent, either longterm or short-term.

Conclusions

At 5% of the total inventory, client has plenty of headroom.

Recommendations

There is no obvious barrier to continued expansion of market share. Increased MIND share – what proportion of homeowners who might rent their homes thinks of NEWCO without prompting when asked to name top property management firms—is what is needed to drive inventory growth. And that can only be accomplished by steady repetitions of the key benefits.

Market Area BAR	KPI Performance
	5

49. Service or Product Market Demand

The most important question any business must answer is, 'Will anyone buy your service or product?' The next is, can you deliver it at sufficient profit to keep business flowing. Historical data can guide businesses offering services or products in a category where other more or less similar products already are selling, but for new-to-the-world products, Steve Jobs famously noted, "It's not the consumer's job to know what they want." In such cases, inferences can be drawn from adjacent markets or products or behavioral clues, but until the product is on the market, no one can know for sure what the demand will be. And even in categories with existing products, the future demand may change, for various reasons.

Objective

The objective is to gain additional insight into the future prospects of the business products or services so that decisions can be made today to adjust the business capacity to the future.

Investigation

Interviewed management team.

Observations

Client employs brainstorming sessions for new business ideas, but no stage-gating, research, lean startup or other formal methodology for evaluating new opportunities.

Conclusions

With a dominant position in its geographic markets, client sees demand as largely controlled by external market forces, such as the failure of banks to increase mortgage lending to keep up with demand, with the result that more would-be buyers and would-be sellers stay in the rental market. Thus growth must come from acquisition of new properties, which is limited by the willingness of home owners to choose to rent.

Recommendations

1. Conduct research to determine the barriers, real and perceived, to renting out one's home. Airbnb seems to have figured this out. Although it started with "couch-surfers" it has very quickly expanded to more conventional renters and owners. Use both online survey tools (consider surveys among Facebook friends of Likes), and more in-depth face-to-face techniques. Also expand competitive research.
2. Explore relationships with homeowners' associations, neighborhood associations, and real estate brokerages.

MARKET AREA BAR
KPI PERFORMANCE
3

50. Current and Projected Growth Rates

A growth rate measures the change in a key indicator (sales, profit and units) from one point in time to another. The points in time need to be chosen to reduce the temporary distortions introduced by predictable seasonality and by accidents or isolated sets of circumstances, such as an early season blizzard that cuts foot traffic to most retail stores, but boosts sales of snow shovels and portable generators. While the precise future is unknowable, projections use assumptions to make more or less reasonable predictions but it is important to be transparent and thorough in identifying the underlying assumptions: growth next year will be like growth last year, or external evidence signals a change in the industry or economy as a whole that will affect this company's future.

Objective

The objective for the company is to gauge current and projected growth rates in order to prepare now for the future on a rational basis, guiding current decisions of impact that will not be immediately felt. These might include changing order volume in a lengthy supply chain or timing capital expenditures. Many companies have moved to scenario planning, which replaces specific forecasts with as wide a range of imaginable futures as possible, giving the company time to prepare for a variety of circumstances.

Investigation

Interview owners.

Observations

Aggressive growth goals for 2013 omit details of how to get there, or, apparently, a budget to support. Owners are aware of out-of-niche growth opportunities – out-of-area property management, REITs, MLPs, but uncertain about whether and how to proceed.

Conclusions

Ambitious goals for growth do not seem to be accompanied by clear, or at least, agreed-upon plans for how to get there.

Recommendations

1. Break BHAG(s) down into smaller, "bite-size" chunks that show the path forward. Sometimes setting an aggressive goal forces one to think differently – but not always!
2. Add a referral program for current owners to their social circles. Weigh carefully whether to rely on un-aided social referrals, or to offer monetary incentives. Purely social campaigns can be much more powerful in some circumstances, while monetary incentives can occasionally backfire. Test both!
3. For REITs, etc. need a specialized consultant.
4. For expansion of the core business lines, long-term and vacation property management and rentals, to non-local geographies, consider whether there is excess capacity in the current infrastructure of the business. If not, are all business

processes easily duplicated in a new location? Is growth a matter of increasing expenses while maintaining margins, or are there ways to grow profits nonlinearly? An example: if you wrote an e-book "How to Succeed at Property Management" – you could sell unlimited copies without a proportional increase in costs.

5. Other non-core growth opportunities: Are there niches closely related to the core businesses that are attractive and allow you to leverage your existing skills, knowledge, processes, customer base or staff?
   a. For instance, one barrier to acquiring new inventory may be the fear of some owners about damage to their household goods. Is there a business opportunity in partnering with quality movers, storage owners and furniture rentals? NEWCO could make it easy and safe for owners to let others move into their homes. Initial fear is that costs are prohibitive, but it still might be worth exploring.

   b. How about affiliating with property management companies in complementary (vacation) destinations? Create a network for exchange rentals without the upfront costs and restrictions of time shares? Exchange sites already exist for matching individuals, but not one with concierge quality property management support, I believe.
   c. Continue to expand janitorial/house cleaning services -- another locally fragmented business sector.

MARKET AREA BAR

KPI PERFORMANCE

3

ANNEX I—COMPANY INFORMATION AND STRUCTURE

Business Name: NEWCO

Primary Industry: Real Estate, Management, Rentals and Sales

Head Office Address:
Address1: 9 Old Pax Valley Trail
Address2:
City: Pax Valley
State: NM **Zip:** 87777

Phones: (505)-555-1013
Main Line: (877) 555-4955

Website Address: http://www.NEWCOproperty.com

Contact Person:
Last Name: Charles
First Name: Smith
Contact Title: CEO, Qualifying Broker

Contact Location: Same as above
Address1:
Address2:
City:
State: **Zip:**

Contact Phones: Same as above
Corp. Phone: Fax:
Cell:
Contact Email:

Number of Employees:
Company Entity:

Organizational Chart:

State of Incorporation or Partnership Registration:

No. of Operating Divisions: Long-Term Rentals

Wholly Owned Subsidiaries:

Effective Corporate Tax Rate:
Company Goals:

- Net growth of 145 properties by 12/31/13, all locations, all types.
- Building high-performance teams in all areas
- Spencer, Michael, Jane increasing their networks and exposure within Pax Valley, Tierra Vista and Mountain

Town

- Improvements:
  - Spencer improving/innovating financial and IT sectors;
  - Jane improving/innovating marketing/web sectors; and
  - Michael improving/innovating Operations/Sales sectors

Client Personnel

Contact Name	Title	Product/Service Focus	Phone	Email
Management				
Charles Smith	CEO, Qualifying Broker, NEWCO			
Diane Smith	President			
Michael Smith	Chief Operating Officer			
Financial and Accounting				
Spencer Jones	Chief Financial Officer			
Dawn Hershey	Controller	Vacation Rental Accountant		
Terry Thompson	Assistant Controller	Long-Term Accountant		
Sales				
James Brown	Property Manager (Pax Valley)	Long-Term		
Bob Unser	Property Manager (Pax Valley)	Long-Term		
Tonya Sanchez	Leasing Agent (Tierra Vista and Mountain Town)	Long-Term		
Ray Armada	Leasing Assistant, Customer Service (Pax Valley)	Long-Term		
Ursula Leary	Lead Vacation Planner (Pax Valley)	Vacation Rental		
Melanie Garcia	Vacation Planner (Pax Valley)	Vacation Rental		
Trudi Mateo	Vacation Planner (Mountain Town)	Vacation Rental		
Marketing				
Jane Smith	Chief Marketing Officer			
Ben Porter	Web and Marketing Specialist			
Operations				
Nelson George	Quality Assurance Manager (Tierra Vista)			
Joy Telemundo	Field Tech Supervisor (Pax Valley)			

Annex 2—Financial Data

Income Statement

Financial Reporting Period	2013 EXT	2012	2011	2010
Total Revenue	**$2,387,605**	**$2,589,533**	**$2,100,709**	**$2,007,539**
Long Term Mgmt Income	$728,356	$752,238	$792,065	$826,360
Lease Only Rental Income	$22,736	$23,031	$31,725	$13,706
Commercial Rental Income	$114,740	$83,540	$74,519	$84,612
Vacation Rental Income	$1,057,036	$1,328,932	$1,039,089	$1,067,411
Sales/Referrals Income	$15,553	$29,649	$1,560	$15,450
~~Other Income~~	~~$36,516~~	~~$32,589~~	~~$218,603~~	~~$92,587~~
Housecleaning Revenue	$420,480	$372,621	$161,751	
Concierge Revenue	$28,704	$2,521		
COST of GOODS SOLD (COGS)				
Long-Term Direct Expenses	$248,646	$210,947	$258,200	$351,566
Vacation Rental Direct Expenses	$616,268	$694,265	$632,124	$428,879
Housecleaning Expenses	$237,544	$312,768	$119,806	
Concierge Expenses	$2,528	$2,739		
Total COGS	**$1,104,987**	**$1,220,719**	**$1,010,130**	**$780,445**
Gross Profit	**$1,282,618**	**$1,368,813**	**$1,090,579**	**$1,227,094**
SELLING, GENERAL & ADMINISTRATIVE COSTS (SG&A)				
Accounting/Bookkeeping				
Advertising/Marketing	$8,679	$10,453	$6,905	
Administrative and General Supplies	$17,960	$17,127	$10,362	$888,074
Auto Insurance and Repair	$31,022	$32,286	$29,758	
Bank & Credit Card Fees	$3,244	$3,516	$2,976	
Commissions		$15	$0	$11,700
Computer Expenses	$18,324	$20,915	$17,878	
Employee Benefits	$55,470	$68,775	$42,165	
Supply Chain				
Insurance	$43,503	$36,617	$50,388	
Insurance Other				
Warranties, Licenses & Dues	$33,864	$33,663	$34,064	
Maintenance	$8,195	$2,765	$13,625	
Materials			$29,696	
Mortgage Interest				
Payroll Taxes and Fringe Benefits	$113,604	$106,378	$103,208	$2,059
Printing, Postage & Stationery	$5,780	$8,057	$10,669	
Professional and Legal Services	$5,792	$9,279	$96,872	
Repairs and Maintenance	$5,228	$25,380	$1,271	
Rent, Leases, Mortgage		$158,660	$179,860	
Research & Development				

Salaries & Wages	$468,672	$415,648	$387,733	
Subcontractors		$1,924	$23,833	
Telephone, Cell phones, Internet	$46,974	$49,187	$44,761	
Travel & Entertainment	$21,348	$24,826	$23,945	
Utilities	$17,612	$19,935	$13,344	
Worker's Compensation	$5,071	$4,760	$5,381	
Other expenses or losses			$35,000	$1,194
Non-Operational	$7,435	$5,572	$13,876	$2,858
Continuing Education	$2,940	$2,533	$3,347	
SG&A Totals	**$920,716**	**$1,058,271**	**$1,180,915**	**$905,884**
EBITDA (Operating Profit)	**$361,903**	**$310,543**	**($90,336)**	**$321,210**
Taxes (non-income)	$4,306	$5,363	$3,248	$0
Taxes (income)	$0	$0	$0	$0
Interest	$111,647	$95,760	$100,053	$95,483
Depreciation and Amortization	$185,988	$173,981	$216,849	$216,849
Total ITDA	**$301,940**	**$275,105**	**$270,434**	**$312,332**
EBIT	**$59,962**	**$136,562**	**($257,469)**	**$104,361**
Net Profit	**$59,962**	**$136,562**	**($257,469)**	**$104,361**
PAYROLL RATIOS				
Total Payroll	**$468,672**	**$417,587**	**$411,566**	**$363,266**
Direct Payroll Ratio	0%	0%	0%	0%
Indirect Payroll Ratio	20%	16.1%	18.5%	0.6%
Total Payroll Ratio	20%	16%	20%	18%

Key Performance Indicators	Trend
Revenue Trend	Rising/Flat
COGS Trend	Rising
Gross Profit Trend	Rising
SGA Trend	Rising
EBITDA Trend	Rising
Direct Labor Multiplier Trend	--
Payroll Ratios	Rising
SGA- Revenue Ratio	Flat
Total Payroll Ratio	Rising

Trend identified as "rising", "falling" or "flat"

G³ automatically calculates the following items by the following terms on the Income Statement:

- Total Revenue = Sum of all sales income streams from the sale of a particular product or service
- Cost of Goods Sold (COGS) = Sum of all costs to produce the good/service, (e.g. contractors, specialists, materials, overhead)
- Gross Profit = Total Revenue – Cost of Goods Sold
- Selling, General and Administrative Expenses (SG&A) = Sum of all direct and indirect costs related to operating expenses broken up into several categories, (see below for category list).
- Operating Expenses = SG&A + COGS
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA or Operating Profit) = Total Revenue – Operating Expenses
- Earnings before Interest and Taxes (EBIT) = Total Revenue – (Operating Expenses + Depreciation and Amortization)
- Taxes = Income and non-income taxes
- Net Profit = Gross Profit – Operating Expenses – Interest – Taxes – Depreciation and Amortization
- Total Payroll = Direct Labor + Salaries + Wages + Commissions
- Direct Payroll Ratio = Direct Labor / Revenue
- Indirect Payroll Ratio = (Salaries + Wages + Commissions) / Revenue
- Total Payroll Ratio = Total Payroll / Revenue

Balance Sheet

ASSETS

Current Assets

	2010	2011	2012	2013 EXT
Cash and Cash Equivalents	$79,959	($54,663)	$30,535	$19,508
Accounts Receivable:	$59,803	$14,294	$44,864	$29,740
Bad Debt (subtracted from AR)	$0	$0	$0	$0
Inventory Value:	$0	$0	$0	$0
Pre-paid Expenses:	$0	$0	$0	$0
Short-term Investments:	$0	$0	$0	$0
Other Current Assets	$1,096,965	$1,008,209	$960,315	$1,021,830
Total Current Assets	**$1,236,727**	**$967,841**	**$1,035,714**	**$1,071,078**

Fixed Assets

Property, Plant & Equipment (PPE)	$158,710	$159,982	$145,697	$149,558
Depreciation of PPE (subtracted from PPE)	$0	$0	$0	
Investment Securities	$0	$0	$0	$0
Investments in Employees/Associates	$0	$0	$0	$0
Intangible Assets (IP, ©, ™)	$1,390,263	$1,456,582	$1,353,386	$1,400,077
Accumulated Amortization	$0	$0	$0	$0
Goodwill	$0	$0	$0	$0
Other	$0	$0	$0	$0
Total Fixed Assets:	**$1,548,973**	**$1,616,564**	**$1,499,083**	**$1,549,635**
Total Other Assets				
Total Assets	**$2,785,700**	**$2,584,405**	**$2,534,797**	**$2,620,712**

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Accounts Payable	($3,000)	$4,000	$0	$6,011
Current Income Taxes Payable	$0	$2,607	$11,827	$7,445
Current Loans Payable	$1,304,512	$222,958	$1,403,890	$910,453
Short-term Provisions	$2,741	$7,637	$1,907	$4,358
Other Current Liabilities	$4,428	$1,008,209	$0	$179,456
Total Current Liabilities (amount due within one year)	**$1,308,682**	**$1,245,411**	**$1,417,624**	**$1,107,723**

Non-Current Liabilities

Loans Payable	$0	$0	$0	$0
Issued Debt Securities (Notes/Bonds Payable)	$1,414,185	$1,540,091	$1,297,144	$1,417,140
Deferred Tax Liabilities	$0	$0	$0	$0
Provisions (pension obligations)	$0	$0	$0	$0
Other Current Liabilities (e.g. Leases)	$79,191	$0	$0	$0

Total Non-Current Liabilities (amount due after one year)	**$1,493,376**	**$1,540,091**	**$1,297,144**	**$1,417,140**
Shareholders' Equity				
Total Shareholder Equity	($16,357)	($201,097)	($179,971)	($132,475)
Total Liabilities and Owner Equity	**$2,785,700**	**$2,584,405**	**$2,534,797**	**$2,392,388**
Net Book Value	**($1,406,620)**	**($1,657,680)**	**($1,533,357)**	**($1,304,227)**

G^3 automatically calculates the following items by the following terms on the Balance Sheet:

- Current Assets = Cash and Cash Equivalents + Accounts Receivable + Inventories + Prepaid Expenses + Investment Securities – Bad Debt
- Non-Current Assets (or Fixed Assets) = (PPE + Investment Securities + Investments in Associates + Intangible Assets + Goodwill + Other Non-Current Assets) – (Depreciation + Amortization)
- Total Assets = Current Assets + Non-Current Assets
- Current Liabilities (amount due within one year) = Accounts Payable + Current Income Tax Payable + Current Loans Payable + Short-Term Provisions + Other Current Liabilities
- Non-Current Liabilities (amount due after one year) = Loans Payable (after 1 year) + Issued Debt Securities + Deferred Tax Liabilities + Provisions + Other Non-Current Liabilities
- Total Liabilities = Current Liabilities + Non-Current Liabilities
- Shareholders' Equity = Total Assets – Total Liabilities
- Net Book Value = Total Assets – (Intangible Assets + Goodwill + Other Non-current Assets – Amortization) – Total Liabilities

Ratios

- Current Ratio = Current Assets divided by Current Liabilities
- Quick Ratio = (Current Assets – Inventories) / Current Liabilities
- Net Working Capital Ratio = (Current Assets – Current Liabilities) / Total Assets
    - Working Capital = (Current Assets – Current Liabilities)
- Net Profit Margin = Net Profit / Revenue
- Return on Equity = Net Profit / Shareholders' Equity
- Debt to Equity = Total Liabilities / Shareholders' Equity

Sales, Marketing and Industry Variables

- Earnings Growth = (Total Revenue most recent or current year – Total Revenue previous year) / Total Revenue of previous year
- Inventory Turnover = Cost of Goods Sold / Average Inventory
- Average Inventory = (first two quarters of fiscal year inventory + second two quarters of fiscal year inventory)

ANNEX 3 – HUMAN RESOURCES TOOLS AND GUIDES

EMPLOYEE HANDBOOK

The Employee Handbook should include the following topics:

Family/ Medical Leave

Company will grant unpaid Family/Medical leave in accordance with federal and state laws. Family/Medical Leave may be taken for the following reasons: (1) the birth or adoption of a child, (2) the serious illness of a child, spouse, domestic partner, or parent, or (3) the serious illness of the employee. To be eligible for the leave, an employee must have been employed for at least 12 months and worked at least 1,250 hours in the prior 12-month period. Employees are required to give advance notice of need for Family/Medical Leave when possible.

Bereavement Pay

All full-time and part-time employees are eligible for a maximum of five days of paid bereavement leave for the death of an immediate family member. This definition of immediate family includes: spouse, domestic partner, child, parent/guardian, spouse's parent, sibling, grandparent, and grandchild. In the event of other bereavement, the employee must use his/her personal time.

Jury Duty

An employee must submit a copy of the jury duty summons or subpoena for a court appearance to his/her supervisor and to Accounting Manager as soon as it is received. Where the jury duty schedule permits, the employee should work in the office (or from home) for the remainder of the day(s). Upon completion of jury duty, proof of service must be submitted to both the Accounting Manager and Head of Administration in order to be paid for time away from the office.

Voting

If a registered voter is scheduled to work on an election day and the work schedule and hours for voting do not permit sufficient time before or after working hours for the employee to vote, he or she will be given a reasonable amount of time off from work to vote.

Military Leave

A leave of absence may be granted to employees in order for them to perform military duties or fulfill any other military obligations. A copy of the military orders must be submitted to the Human Resources Department before the leave will be granted.

Continuation of Coverage

The Firm is required under the Federal Consolidated Omnibus Budget Reconciliation Act (**COBRA)** to offer employees (at their own expense) extended major medical insurance including dental and hospitalization for a minimum of 18 months. This coverage is made available to employees whose employment has been terminated (except when termination is for gross misconduct) or whose hours have been reduced to an extent that coverage would otherwise be lost.

Employees must request the extended coverage in writing within 60 days from the date of termination, or the date the employee is notified of the right to continue coverage, whichever is later. Individuals who become disabled may extend their COBRA coverage past the 18-month limit to 29 months.

INFORMATION SYSTEMS

Outlook (e-mails) and any other information systems are not to be used in a way that may be disruptive, offensive to others, or harmful to morale. Employees should use the information systems for _____ for business only. The electronic mail system should not be used to solicit others for commercial ventures, religious ventures, religious or political causes, outside organizations, or other personal matters unrelated to _____ business.

For privacy reasons, employees should not attempt to gain access to another employee's personal file or email messages without the latter's express permission. Computer and hard-copy files are the property of the Firm. Management reserves the right to enter or monitor an employee's computer and email files if there is a business reason to do so.

A uniform disclaimer is to be included on the bottom of all outgoing company's e-mails stating confidentiality, legal privilege and law protection, All e-mails should have the employees' name, title as well as the company logo and contact information.

INTERVIEW QUESTIONS

Acceptable/Unacceptable Questions

Subject	Acceptable/Unacceptable Questions
Name	Acceptable • Have you ever used another name? • Are there any other names we should be aware of in order to check on your work or education record Unacceptable • What is your maiden name?
Residence	Acceptable

- Would anything prevent you from making it to work during your scheduled work period?

Unacceptable

- Do you own or rent your home?

Age

Acceptable

- If hired, can you show proof of age?
- Are you over age 18?
- If you are under 18, can you, after you are hired, submit a work permit?

Unacceptable

- What is your age or birth date?
- When did you attend or complete elementary or high school?
- Questions that would identify applicants as over age 40.

Birthplace or Citizenship

Acceptable

- Can you, after being hired, submit verification of your legal right to work in the U.S.? (This must be asked of all applicants, not just those that appear to be of foreign birth).

Unacceptable

- Where were you born?
- Where were your parents, spouse or relatives born?
- Are you or your relatives U.S. citizens?
- Any requirement that the applicant produce naturalization papers, first papers or an alien card prior to being hired.

National Origin

Acceptable

- What languages (required by the job) do you read, speak, write or understand?

Unacceptable

- What is your nationality, lineage, ancestry, national origin, descent?
- What is the nationality, etc., of your parents or spouse?
- What is your mother tongue? What is the language you commonly use?
- How did you learn to read, write, or speak a foreign language?

Sex, marital status

Acceptable

- What is the name and address of your parent or guardian (if the applicant is minor)?

Unacceptable

- Questions that ascertain the applicant's sex or marital status.
- How many children do you have? What are their ages?
- What arrangements have you made for child-care?
- Questions regarding pregnancy, child bearing or birth control.
- What is the name and address of your spouse? Of a relative? Of your children?
- With whom do you live? Do you live with your parents?
- What is your sexual preference?

Race or color

Acceptable

- There are no acceptable questions in this area.

Unacceptable

- Questions about the applicant's race or color, complexion, color of eyes or hair.

Bonding

Acceptable

- Statement that bonding is a condition of hire (if bonding is a bona fide job requirement).

Unacceptable

- Questions regarding refusal or cancellation of bonding.

Military service

Acceptable

- Questions regarding relevant skills acquired during the applicant's U.S. military service.

Unacceptable

- General questions regarding military service such as dates and the type of discharge.
- Question regarding service in a foreign military service.

Organizations and Activities

Acceptable

- Please list job-related organizations, clubs, professional societies, or other associations to which you belong, other than those which indicate your race, national origin, ancestry, sex or age.

Unacceptable

- List all of the organizations, clubs, societies and lodges to which you belong.

Economic status

Unacceptable

- What are or were your assets, liabilities, credit rating, garnishments and bankruptcy record?

References

Acceptable

- Who referred you for a position here?
- What are the names of people who can provide a professional or character reference for you?

Unacceptable

- Questions of the applicant's former employers, employees or acquaintances which elicit information specifying the applicant's race, color, creed, national origin, ancestry, physical handicap, medical condition, marital status, age or sex.

Notice in case of Emergency

Acceptable

- Name and address of person to be notified in case of an accident

Unacceptable

- Name and address of relative to be notified in case of an accident or emergency.

Physical description or photograph

Acceptable

- Statement that a photograph may be required after employment.

Unacceptable

- What is your weight and height?
- Requirement to affix a photo to the application.
- Request that the applicant, at his/her option, submit a photograph.
- Requiring a photograph after the interview but before being hired.

Physical condition disability

Acceptable

- Statement that the offer may be contingent on the applicant passing a job-related physical exam.
- If a (blank) were provided would you be able to perform this job function? (Provided the function is essential)

Unacceptable

- Questions regarding the applicant's general medical condition, state of health or illness.
- Do you receive Worker's Compensation?
- Do you have any physical disabilities or handicaps?

Religion

Acceptable

- Statement of the regular days, hours or shifts to be worked.
- Are you able to work this schedule?

Unacceptable

- What is your religion?
- Does your religion prevent you from working weekends or holidays?

Arrest

Acceptable

- Have you ever been convicted of a felony, or a misdemeanor (within a specified time period) that resulted in imprisonment? (A statement must accompany such a question that a conviction will not necessarily disqualify the applicant from the job.)

Unacceptable

- Have you ever been arrested?

Concluding the interview

Ask the applicant if there are any questions you can answer for him/her. Allow as much time as necessary for this question and answer session. Give the candidate sufficient facts, both favorable and unfavorable, about the position, the department, promotional opportunities, etc., in a straight-forward manner so that he or she can make an intelligent decision about the position.

Let the candidate know when you expect to make a final decision, and who will contact him/her. Provide the candidate with the name of someone to call in the event he or she has additional questions.

SUBJECT	**CAN DO OR ASK**	**CANNOT** DO OR ASK

Age	Ask age after hiring applicant. Are you over 18?	How old are you? Employer cannot estimate age.
Children	Ask number and ages of children after hiring for insurance purposes.	Do you have children at home? How old are they? Who cares for them? Do you plan on having more?
Citizenship	Whether or not applicant is a U.S. citizen or legally eligible to work in the United states per Immigration Reform and Control Act.	Make personal inquiries into applicant's heritage.
Criminal Record	If security clearance is necessary, can this be Done?	Have you ever been arrested, convicted, or spent time in jail prior to employment?
Disability	Are you able to carry out necessary job assignments and perform them well and safely?	What are the nature and/or severity of any disabilities you have?
Drivers License	Can ask applicants driving status and request DMV printout only if the position requires driving.	
Education	Inquire about Education and or certificates for positions requiring them.	Readily inquire about high school diploma for entry level, remedial positions.
Financial Status	Employer can request necessary financial info for benefits, stock options, and 401K after applicant is hired and upon applicant's discretion.	Employer may not inquire about financial status, wage attachments, outstanding loans or obligations, or bankruptcy status.
Housing	If you have no phone how can we contact you?	If you have no phone how can we contact you?
Marital Status	Ask status after hiring for insurance purposes.	Are you married, single, engaged, or divorce? Are you currently living with anyone? Do you see your ex-spouse?
Military Status	Are you a Veteran? Why not? Any job related experience in military?	What is your discharge status? What branch did you serve in?
Physical Data	Explain manual labor, lifting, and other job requirements. Employer	How tall are you? How heavy are you?

	may also demonstrate these duties as well as require applicant to undergo a physical examination.	
Race	Employer may notice general distinguishing characteristics to be used for identification purposes.	Question applicant on eye color, hair color, etc., or any other direct or indirect questions indicating race or status.
References	Who referred you for a position here? Ask for past employment references.	Require the submission of a religious reference.
Relatives	Employer cannot inquire about nearest relative or next of kin.	Employer may ask for person to contact in case of an emergency.
Sex	Interviewer may notice general appearance.	Make comments or notes unless sex is a bona fide occupational qualification.
Social Security	Once an applicant is hired his/her employer may request applicant's Social Security number for benefits purposes.	Interviewer cannot ask elderly applicant whether he/she is receiving social security benefits.
Union Affiliation	Employer can notify applicants of corporations' Union status.	Interviewer cannot ask whether applicant has ever been affiliated with a union.

PERFORMANCE REVIEW AND DEVELOPMENT

Employee	**Title**
Department	**Review Period**

Job Responsibilities *Please briefly describe.*

Accomplishments *Please list this individual's top three accomplishments this year.*
1.
2.
3.

Strengths *Please list this individual's top three strengths, and after each, give a specific example of an instance in which this strength was exemplified.*
1.
2.
3.

Opportunities for Improvement *Please list three areas in which this individual could improve and develop performance.*
1.

2.
3.

Organization Values *Please review the organization values. Indicate how well this employee has been exhibiting the values and provide comments and/or examples.*	
Team Values: * Respect one another and honor diversity. * Be straightforward and direct when dealing with one another, our customers, and our vendors. * Balance work and personal lives.	**Comments/Examples**:
Our Customers Are Our Partners: * Create solutions that add value to their business. * Deliver high-quality products by doing high-quality work.	
Balanced Risk Taking: * Taking informed risks, balanced by the values of the team. * Being nimble and innovative, no matter how large we grow.	
Results Orientation: * Maximize sustainable profitability for shareholders. * Honor commitments to each other and to our customers.	

Goals/Objectives for the Coming Year

Overall Performance Rating
[] **Outstanding:** Performance consistently far exceeds job requirements. [] **Exceeds Expectations:** Performance consistently meets and frequently exceeds job requirements. [] **Successful:** Performance fully meets job requirements. [] **Needs Improvement:** Performance meets some, but not all, job requirements. [] **Unsatisfactory:** Performance is below job requirements.

Comments:

Employee Signature	**Date**

Note: This signature indicates only receipt of the review, not agreement with it.

Manager Signature	**Date**
Up-One-Level Signature	**Date**

Managers
* Please obtain the appropriate signatures.
* Give the signed form to Human Resources by [date].
* Copies will be provided to you by Human Resources for use in the review.

EMPLOYMENT AGREEMENT SAMPLE

This AGREEMENT, entered into this ___ day of [Month], 20__, between [Business], a [state of incorporation] (the "Company"), and [name of employee] (the "Employee"),

WITNESSETH THAT:

WHEREAS, the parties hereto desire to enter into this Agreement to define and set forth the terms and conditions of the employment of the Employee by the Company;

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, it is hereby covenanted and agreed by the Company and the Employee as follows:

1. <u>Position; Employment Period</u>

The Company hereby employs the Employee as its [position], and the Employee hereby agrees to serve in such capacity, for the period beginning [start date], 20__, and ending on the date on which the Employee's employment is terminated in accordance with paragraph 8 below (the "Employment Period").

2. <u>Performance of Duties</u>

The Employee agrees that during the Employment Period he shall devote his full business time to the business affairs of the Company and shall perform his duties faithfully and efficiently subject to the direction of the [President] of the Company; provided that the foregoing shall not limit or prevent the Employee from serving on the board of directors of charitable organizations or other business corporations not in competition with the Company. The Employee shall not be assigned duties and responsibilities that are not generally within the scope and character associated or required of other employees of similar rank and position.

3. <u>Compensation</u>

(a) Subject to the following provisions of this Agreement, during the Employment Period the Employee shall be compensated for his services as follows:

(b) He shall receive an annual salary, payable in monthly or more frequent installments, in an amount which shall initially be [$ amount] per annum, subject to such increases as may from time to time be determined by the [President] of the Company.

[specify pension and other non-salary benefits.]

(c) He shall be entitled to vacations of not less than [amount] per year.

(d) He shall be entitled to such other perquisites as may be customarily granted by the Company to employees of similar rank and position.

4. <u>Disability</u>

Subject to the provisions of paragraph 8, if the Employee's employment is terminated during the Employment Period by reason of his Disability (as defined below), the Employee shall continue to receive an annual salary and benefits in accordance with paragraphs 3(a) and 3(b) through the end of the [number] full calendar month of such disability but not in any event beyond the end of the Employment Period. For purposes of this Agreement the term "Disability" means a physical or mental disability which renders the Employee incapable of performing his duties under this Agreement and which disability has existed for at least [number] months, as determined by an independent physician selected by the Company and agreed to by the Employee. Any salary payments to the Employee shall be reduced by the amount of any benefits paid for the same period of time under the Company's disability insurance programs.

5. Competing Businesses

During the period of his employment under this Agreement, the Employee shall not be employed by or otherwise engage in or be interested in any business in competition with the Company, or with any of its subsidiaries or affiliates, except that the Employee's investment in any such business shall not be considered a violation of this paragraph if either (a) the Employee owns less than [number]% of the equity thereof, or (b) such business is not in competition with the Company.

6. Confidentiality

During and after the Employment Period, the Employee will not divulge or appropriate to his own use or to the use of others, in competition with the Company, any secret or confidential information or knowledge pertaining to the business of the Company, or of any of its subsidiaries, obtained by him in any way while he was employed by the Company or by any of its subsidiaries.

7. Remedies

If at any time the Employee violates to a material extent any of the covenants or agreements set forth in paragraphs 5 and 6, the Company shall have the right to terminate all of its obligations to make further payments under this Agreement. The Employee acknowledges that the Company would be irreparably injured by a violation of paragraph 5 or 6 and agrees that the Company shall be entitled to an injunction restraining the Employee from any actual or threatened breach of paragraph 5 or 6 or to any other appropriate equitable remedy without any bond or other security being required.

8. Amendment and Termination This Agreement may be amended or cancelled by mutual agreement of the parties without the consent of any other person and, so long as the Employee lives, no person, other than the parties hereto, shall have any rights under or interest in this Agreement or the subject matter hereof The Employment Period shall terminate as of the earliest of:

(a) [date];

(b) the last day of the month in which the date of the Employee's death occurs; or the date on which the Company gives notice to the Employee if such termination is for Cause or Disability.

(c) For purposes of this Agreement, "Cause" means the Employee's gross misconduct resulting in material damage to the Company or willful and material breach of this Agreement.

9. Notices

Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if sent by registered mail to the Company at its principal executive offices or to the Employee at the last address filed by him in writing with the Company, as the case may be.

10. Non-Assignment

The interests of the Employee under this Agreement are not subject to the claims of his creditors and may not be voluntarily or involuntarily assigned, alienated or encumbered.

11. Successors

This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.

12. Applicable Law

The provisions of this Agreement shall be construed in accordance with the laws of the State of Illinois.

13. Counterparts

The Agreement may be executed in two or more counterparts, any one of which shall be deemed the original without reference to the others.

IN WITNESS WHEREOF, the Employee has hereunto set his hand, and the Company has caused these presents to be executed in its name and on its behalf, all as of the day and year first above written.

____
[Employee Name]

[name of business]
By:____________________________________
Its: Duly Authorized Representative

Employee Self-Evaluation Template

Please take some time to answer the following questions. Your input will be used to help develop and implement your career/position goals over the next year. Please return this form to your manager by **(Enter a Date Here);** we will schedule your performance review at that time. Thank you for your input.

A. **What You Have Done.** Address your overall performance record. What have you Done to:

1. Improve yourself?

2. Improve your position?

3. Increase your efficiency (save time)?

4. Improve the company (quality)?

5. How would you grade yourself in terms of: (scale of 1 to 5, 1 = low, 5 = high)

_____ Consistency _____ Communication _____ Technical skills
_____ Reliability _____ Organizational skills _____ Competence

B. **What You Plan To Do.** What are your concrete goals over the next review period, and what are the measurable outcomes that will demonstrate that you have achieved those goals?

1. Your goals:

2. Measurable outcomes:

C. **What Your Supervisor and the Company Can Do to Help.**

1. In what areas do you feel that you need added support, structure, and direction?

2. What can I, as your supervisor (and the company), do to ensure that you are fulfilling your career development goals by building a solid portfolio of skills?

Additional Comments:

Employee Name ________________________ Department: ________________________

Supervisor Name: ________________________ Review Period: _____________________

Employee Signature: _______________________________ Date: _____________________

G³ LLC

1660 Old Pecos Trail · Santa Fe, NM · 87505

info@growth3.com

1.888.891.7844

www.growth3.com