

# Maximize Your Bonding Capacity!

**E**ach surety company has its own underwriting standards and requirements, but there are shared fundamentals common to the underwriting of most surety companies. Before the surety company underwrites a bond, the contractor typically undergoes a careful, rigorous, and thorough process, often referred to as prequalification.

Boley-Featherston's professional bond producer will collect and present the required information to a surety company but it is important to remember that you, the contractor, hold the key to maximizing your bonding capacity.

Though not always required, following these tips will allow your bond producer to get the bonding capacity you deserve.

## Get Organized!

Taking the time to organize your information can play a major role in the surety company's decision issue bonds to you. This Surety Survey form is a wonderful source of information for your bond producer and underwriter, however, you might also consider including:

- An **organization chart** of key employees and their responsibilities.
- Detailed **resumes** of key employees.
- A **business plan** outlining the type and size of work sought, prospects for such work, the geographic area in which the company operates, and growth and profit objectives.
- A **continuity or completion** plan outlining how the business will continue in the event of the owner's death or disablement.
- Evidence of a **bank line of credit** Sureties like to see a bank line of credit to augment working capital and to handle temporary cash flow deficits or strains. Sureties generally look for an unsecured line of credit or a line of credit obtained through the long-term financing of equipment or real estate.
- **Letters of recommendation** or references from subcontractors, owners, architects, and engineers on completed projects.

## Financial Statements

It is standard practice for the surety company to request three years of fiscal year-end financial statements. There are many different ways to prepare a financial statement and every accountant has his or her own method but keep this in mind when hiring a CPA...

*Financial statements are only as good as the accountant preparing them!*

**FACT:** Although it may seem as if surety companies focus on finances and financial structure, they are also interested in other elements of a contractor's business. The contractor's organization, track record, and approach to a job are all significant factors in underwriting decisions!

It is important that you select a CPA who is knowledgeable of construction accounting and the American Institute of Certified Public Accountants' *Audit Guide for Construction Contractors*. Your surety company will inevitably ask for a reviewed financial statement prepared on a percentage of completion basis.

## Why Percentage of Completion?

Complete and accurate accounting systems are extremely important to surety companies. The percentage of completion method best represents a contractor's financial condition and most accurately measures results of work performed during the accounting period. The percentage of contract values recognized as revenue typically is done on a cost-to-cost percentage-of-completion.

Depending on the time elapsed since the last fiscal year-end statement, the surety may ask for an interim financial statement every three or six months to show how the current year is progressing.

## Work-In-Progress Schedules

Contractors need to prepare a quarterly schedule of work in progress (WIP). Boley-Featherston's bond producer can provide a work-in-progress schedule for you to complete, however, if you choose to supply an in-house schedule it should include:

- Total contract Price
- Approved change orders

- Amount billed to date
- Cost incurred to date
- Revised estimate of the cost to complete
- Estimated final gross profit; and
- Anticipated completion date.

Your surety company may prefer a specific format and the amount of information required on a work-in-progress schedule may vary. It is almost always required in connection with the full CPA reports.

## Maintaining Your Surety Relationship

You have followed the necessary steps in establishing a solid relationship with your surety company to get the ball rolling. Now, keep the lines of communication open and consult with your bond producer regarding changes within your organization and other factors that impact your operations. Your bond producer and underwriter are two of the most valuable resources as a contractor and keeping them up to date will keep you ahead of the game. Your producer will ask that you provide the following on an annual basis:

- Bank letter of reference.
- Fiscal year-end company financial statement.
- Personal financial statement.
- Work-in-progress schedule (quarterly).
- Certificate of insurance.

Providing this information in a timely manner will help develop a long-term relationship with your surety company but most importantly they will develop trust and confidence in you. Maturing into a growing partnership requires teamwork and an organized effort among the contractor, the surety underwriter, and the surety bond producer.

Even after all of the information is provided to the surety, there is no guarantee it will result in approval. The bond will be approved only if the surety is confident that you are qualified to perform the contract and work program successfully and you have the financial capacity to withstand the risks that are involved in the construction industry.

If you go the extra mile in demonstrating to the surety that you are capable of superior performance, they will be more likely to extend the bonding capacity that you want and need!