

## **BONDS: UNDERWRITING INFORMATION**



### ***ITEMS REQUIRED FOR A SUBMISSION TO A BONDING COMPANY***

- **FISCAL YEAR-END FINANCIAL STATEMENTS:** Typically, bonding companies require, at a minimum, a CPA reviewed statement that is prepared in accordance with Generally Accepted Accounting Principals (GAAP) and which recognizes revenues on a percentage of completion basis. For contractors who have small and infrequent bond needs, a CPA compilation may be acceptable. A CPA audit may be required of those that obtain a substantial amount of surety support. Statements from the past 3 years are needed to establish a bonding program. They should contain, at a minimum, a balance sheet, income statement, statement of retained earnings, statement of cash flows, schedule of general & administrative expenses, schedule of construction costs and job schedules. The under and over billing figures from the work-in-progress schedule should tie in with those same entries on the balance sheet. In addition, bonding companies like to receive aged schedule of accounts receivable as of the date of the most current statement.
- **PERSONAL FINANCIAL STATEMENTS:** The personal indemnitors (typically, the shareholders with a 10% or greater ownership interest in the company) should prepare, as of the date of the most current business statement, financial statements. In the preparation of the statements, it is important that all assets and liabilities are reflected and any financial interactions with the corporation are accurately displayed.
- **CONTRACTOR'S SURETY SURVEY:** Please complete the Minard-Ames' survey form or provide a copy of a survey that has already been executed. It will provide the bonding company with information about the firm's history, ownership team, work history, job & credit references and other important underwriting items.
- **BANK RELATIONSHIP:** The copies of the bank documents (note and security agreement) in support of the working capital line is requested by the bonding company. In its place, a letter from the contractor's bank outlining the deposit relationship as well as the credit relationship can be furnished. In describing the credit relationship, the bank should disclose the amount of credit that is available to the contractor, the terms and the security that has been posted.

### ***ITEMS THAT MAY BE REQUIRED TO BUILD THE UNDERWRITING FILE***

- **ORGANIZATION CHART:** The bonding company would like to know how the company is organized. An organization chart that displays the personnel structure of the firm will be very helpful.
- **RESUMES:** The resumes on the key players in the contracting organization are very useful. They show an individual's experience, growth in responsibility and accomplishments over the years.
- **COST ACCOUNTING SYSTEM:** A brief two paragraph description about the contractor's cost accounting system tells the bonding company a great deal about the professional management of the construction firm. The areas that should be covered include:

- The fact that the cost accounting system is integrated with the general ledger.
  - How labor burden is costed into job costs.
  - How the equipment costs are costed into job costs.
  - A confirmation that the costs are kept exactly the same way as the job is bid. The bonding company would also appreciate comments concerning how pay item unit costs or CSI breakdown costs are displayed next to budget, to demonstrate how management decisions in running the job are made.
- **CORPORATE CONTINUATION:** “Buy/Sell” agreements are traditionally funded by life insurance and a description of that life insurance, as shown below, is very helpful. In cases where “Buy/Sell” agreements are not appropriate, corporately-owned life insurance will operate as a stopgap measure. In describing the life insurance that the corporation owns on a stockholder, the following information will assist:
    - Insurance company and policy number.
    - Policy amount and plan (i.e. term, ordinary whole life, universal life, etc.)
    - Owner and beneficiary.
  - **CORPORATE PLAN:** A formal strategic plan is valuable to a bonding company. In the absence of such a plan, a brief description about where the construction firm is going and how it plans to get there is of assistance.
  - **CORPORATE HISTORY:** Where a contracting firm has come from and the steps that were taken to get there tell a powerful story to the bonding company. Some care should be used in developing the corporate history so that it shows the construction firm at its best.

In preparing this material for the bonding company, one should remember that **YOU NEVER GET A SECOND CHANCE TO MAKE A GOOD FIRST IMPRESSION!**