

Sage Construction and Real Estate

How to best position your construction company to a surety in 2013



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Surety 2013 market forecast

Surety executives are anticipating 2013 to be another tough economic year for construction companies. According to the November 2012 “10th Annual Contractor’s Guide to Surety Bond” report, surety loss and claims are anticipated to be higher, especially for the lower end of the surety market.¹ Subcontractors and suppliers are likely to be more aggressive in demanding payments to minimize financial risk, and, on the flip side, general contractors are expected to increase scrutiny of sub and supplier contract performance. Despite the continual pressures felt by contractors in an economy that remains uncertain, the future for sureties holds promise: Bonds are expected to be available for construction companies that can demonstrate a well-run business. Rod Williams, chief underwriting officer for Liberty Mutual Surety, comments, “The industry in general has remained rational, and there remains plenty of bond capacity, especially for contractors that have responded appropriately to the financial crisis and adjusted their business plans accordingly.”²

Criteria used by construction Surety underwriters

The contractors who are getting the bonds are those who provide the type of information that underwriters need to clearly assess and verify business finances. David Pesce, senior vice president at Berkley Surety Group, emphasizes timeliness and accuracy. He states, “Two contractors can look identical on CPA statements, but that doesn’t mean they will be looked at equally by a surety. A surety will first choose the contractor who can provide recent reports such as closed monthly statements, work in progress, and aging receivables. But it’s important that you can trust the accuracy. It goes beyond financials and sound documentation—it’s also about showing how well you run your business, such as how you manage subcontractors and suppliers. The more information you can provide, the more likely you are to getting the bond.”

Although a contractor’s business relationship and communications are primarily through a surety agent, the insurance company is the one that provides the money and carries the risk. The insurance company needs to know it can explicitly trust the contractor’s operations, and general practices can reveal a lot about a business. Insurance companies will want to hear about operational details such as how a contractor chooses subcontractors or what type of systems and procedures are used to manage the finances. When asked how software systems may factor into a decision, David Pesce comments, “I pay a lot of attention to contractor software in the market—what they [these systems] can and can’t do, like a work in progress schedule. Your entire internal system’s capabilities are critical and can easily make the difference to getting a bond versus not getting a bond.”

¹http://www.constructionexec.com/Static_Pages/November_2012.aspx page 1

² http://www.constructionexec.com/Static_Pages/November_2012.aspx page 11

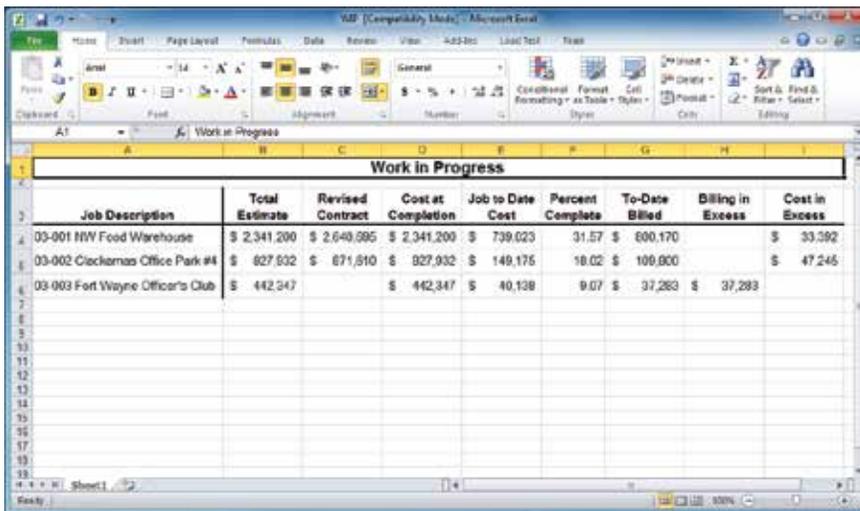
Five key areas for best construction bond capacity and rates

Numbers are going to drive decisions, but surety companies look to confirm that there are strong company bones behind the financial reports. The following are five key recommendations for building a strong and well-presented business;

1. Maintain consistent financial reports

Demonstrating consistent processes and financial reports over time builds trust. It also presents a business with discipline and strong established roots.

It's assumed that a company will leverage reporting for tax and general business assessment—monitoring assets, liabilities, revenues, expenses, and gains/losses. However, to assess contractor risk and capacity, sureties will pay special attention to more specific reports such as a contractor's underbillings and overbillings, work in progress, and cash flow.



Job Description	Total Estimate	Revised Contract	Cost at Completion	Job to Date Cost	Percent Complete	To-Date Billed	Billing in Excess	Cost in Excess
03-001 HW Food Warehouse	\$ 2,341,200	\$ 2,640,995	\$ 2,341,200	\$ 739,023	31.57	\$ 800,170		\$ 33,292
03-002 Ciockomas Office Park #4	\$ 827,932	\$ 871,910	\$ 827,932	\$ 149,175	18.02	\$ 100,800		\$ 47,245
03-003 Fort Wayne Officers Club	\$ 442,247		\$ 442,347	\$ 40,138	9.07	\$ 37,263	\$ 37,263	

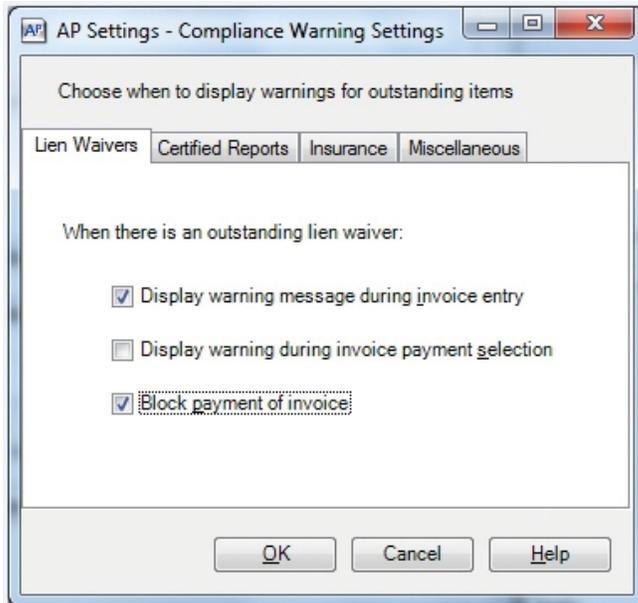
Example of "Work in Progress" (WIP) data easily exported from Sage 300 Construction and Real Estate (formerly Sage Timberline Office).

2. Manage cash flow

A surety assesses cash flow capacity and risk by looking at a business's ongoing business practices in combination with its financial reports. Using current, accurate data is a must. But strong cash flow ultimately results when the many critical aspects of the business are well watched and managed—aspects that extend across project management and procurement methods, regulatory issues, contract terms, and using sound accounting practices. David Pesce comments, "The degree you trust a contractor's cash flow is based on the track record and accuracy of everything else the contractor has provided. Net worth has never stopped a contractor from going broke. It's cash flow that can cause someone to go bankrupt."

3. Manage risk and the compliance of subcontractors and suppliers

Managing subcontractor and supplier workflows and the associated lien waivers has become increasingly complex in the last several years—and with complexity comes increased risk. Contractors who systematically monitor and manage subcontractor and supplier risk surrounding lien waivers, certified reports, permits, punch list completions, and job and vendor insurance renewals—and tie their efforts tightly and proactively into their payment, financial management, and project scheduling processes—minimize their exposure to financial loss.



An example of tightening vendor compliance using Sage 300 Construction and Real Estate Accounts Payable.

4. Set up proactive key alerts and reports before a project begins

Identifying exceptions before they get escalated or turn into a crisis is critical to a successfully run project. Construction companies that set up key proactive reports or electronic alerts ahead of time can ensure they keep ahead of the curve when projects get intense. Examples of critical reports or alerts could include individual overdue invoices, back-logged change requests, lien waivers not yet received, projects that are underperforming or underbilled, or other areas within the company that are prone to weak performance.

5. Attend to the quality of the presentation

When someone makes a presentation, it's common for audience members to mainly remember the presenter's body language. In business, interviewers often remember how a person shows up and what they wear for their interview. Similarly, when a contractor applies for a bond, the qualitative aspects on how the information is presented does factor into the overall impression. Construction executives are expected to know how to personally present and interpret their company's data. Personal character, honesty, and integrity are highly valued by sureties. Also, when assembling reports for a surety, keep in mind that "the four qualitative characteristics of financial accounting" do matter—these are: "understandability, relevance, reliability, and comparability".³ Reports that are well formatted and consistent, include current and accurate data, and show a recognizable financial pattern over time will make it that much easier for an underwriter to gain an assessment.

Gain and show control of your business operations with Sage 300 Construction and Real Estate

Comprehensive financial and operational control

With the speed and complexity of today's construction projects, it's imperative that stakeholders are kept informed and finances are tightly managed. Throughout the entire building lifecycle, Sage 300 Construction and Real Estate (formerly Sage Timberline Office) proactively provides you the information you need to achieve unparalleled operational and business insight and ensures you can deliver the comprehensive and up-to-date reports requested by surety agents and providers. Sage 300 integrates the financial backbones of Accounts Payable, Accounts Receivable, General Ledger, and Job Cost with the operational reach of Project Management, Service Management, and the new cloud solution Sage Construction Anywhere. Built-in and customized reports provide big-picture views and drill-down current details, ensuring you can both maximize and show your business' profitability.

Minimize risk with advanced subcontractor and supplier compliance capabilities

Sage 300 Construction and Real Estate provides advanced functionality to meet today's complexity challenges when managing subcontractor and supplier compliance requirements. Sage 300 mitigates risk by taking a proactive and streamlined approach when managing lien waivers, certified reports, special permits, punch list completion, job- and vendor-level insurance tracking, and more. Alerts, status reports, and visibility into contractor and supplier exceptions reduce and protect against errors.

³ <http://spiffyd.hubpages.com/hub/Financial-accounting-Qualitative-characteristics-of-financial-statements>

About Sage 300 Construction and Real Estate

Sage 300 Construction and Real Estate is the industry's leading construction and real estate management solution. It provides business clarity across all key construction business functions—accounting, estimating, job cost, project management, and more—so you always know where your business stands, enabling your company to be a strong candidate for current and future bonds.

Whether you're at the office, at a jobsite, or on the road, Sage also keeps you connected by providing mobile access to current project information through the software's integrated cloud project portal Sage Construction Anywhere. The advanced alerting capabilities of Sage 300 also ensure you remain in touch with what's happening with each and every project, so you can take timely action to avoid profit erosion and advance projects forward quickly.

With more than 40 years of industry experience, Sage keeps projects moving with the most job-ready and people-connected solutions for construction and real estate. Its 40,000 customers manage more than 400,000 jobs, 5.7 million subcontracts, and 622,000 rental units each year with Sage products. For more information on Sage Construction and Real Estate solutions, visit: www.sagecre.com

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