

Banking vs. Bonding

What do they look for in financial statements?

Western Michigan CFMA Chapter 11.15.18

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Banking vs. Bonding

- What are similar goals?
- Where may goals differ?
- What is most important part of the financial statement?
 - Sample balance sheet analysis walkthrough
 - Other statements, supplementary information
 - Contract schedules (WIP and Completed schedules)
 - Analysis systems/credit models used
 - Liquidity, Leverage, Operational, Supplemental

Banking vs. Bonding

- How does surety and bank establish work program and line of credit amounts respectively?
- Are there any changes to the banks underwriting approach in the construction sector?
- Other questions?

Banking vs. Bonding

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Thank you!!

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ABC Contractors Inc.
Sample Surety Financial Statement Analysis - Example
December 31, 20XX

	As presented in CPA GAAP financial statements	0% Partial 50% 100%	Sample % allowed by surety	Surety Value Allowed	Comments for surety discounting
SURETY FACTOR #1 - WORKING CAPITAL CALCULATION					
Current Assets					
Cash	\$ 116,000	100%	100%	\$ 116,000	
Marketable Securities (available for sale)	75,000	80%	80%	60,000	Adjust for market fluctuation - conservative consideration of asset value
Contract receivables (completed & progress bills)	352,000	\$ (15,000)	50%	337,000	Aging will need to be provided - one receivable over 90 days excluded for \$15,000
Contract receivables retainage	21,000	100%	100%	21,000	
Costs and estimated earnings in excess of billings on uncompleted contracts	73,000	100%	100%	73,000	Each underbilling explained/reviewed for full credit
Inventory	20,000	50%	50%	10,000	Discounted for slow moving inventory; if high turnover surety may not discount
Refundable Taxes	10,000	100%	100%	10,000	
Prepaid Expenses	10,000	0%	0%	-	Expenses paid in advance - no value to surety
Deferred income taxes	-	0%	0%	-	
TOTAL CURRENT ASSETS	677,000			627,000	
Current Liabilities					
Note payable	-	100%	100%	-	
Current maturities of long-term debt	144,000	100%	100%	144,000	
Accounts payable					
Trade	197,000	100%	100%	197,000	
Employee funds withheld	20,000	100%	100%	20,000	
Billings in excess of costs and estimated earnings on uncompleted contracts	64,000	100%	100%	64,000	
Accrued liabilities	55,000	100%	100%	55,000	
TOTAL CURRENT LIABILITIES	480,000			480,000	
TOTAL WORKING CAPITAL	197,000			147,000	
Surety adjustment - allowing CSV life insurance as current depends					Possible credit could be given toward working capital based on \$30,000 CSV. None taken in example
ADJUSTED WORKING CAPITAL - SURETY VALUATION				147,000	
SURETY FACTOR #2 - COMPANY NET WORTH CALCULATION					
TOTAL ASSETS	1,414,000				
TOTAL LIABILITIES	(928,000)				
COMPANY NET WORTH	486,000			486,000	
ADJUSTMENTS TO TANGIBLE NET WORTH					
TNW Adj: Adjustment for Deferred tax asset				(1,000)	Surety may partially allow if deduction can prove it will be taken in next year - No longer considered current per recent GAAP pronouncement
TNW Adj: Advances to Affiliate/Related Party Receivable				(180,000)	Long-term related party - discounted in full.
TNW Adj: Adjustment for Officers' receivable				(20,000)	Long-term related party - discounted in full
TNW Adj: Credit Adjustment for Subordinated Debt from Stockholders				150,000	Loan from shareholders - treated as equity because they have subordinated to surety. It would not be added back if it were not subordinated.
SURETY NET WORTH ADJUSTMENTS				(51,000)	
COMPANY NET WORTH CALCULATIONS				435,000	
BONDING CAPACITY EVALUATION - range depends on other risk factors discussed					
TANGIBLE NET WORTH X 10	\$ 4,860,000			\$ 4,350,000	\$ (510,000)
WORKING CAPITAL X MULTIPLE (RANGE OF 10 TO 20 TIMES)					
WORKING CAPITAL X 10	1,970,000			1,470,000	\$ (500,000)
WORKING CAPITAL X 20	3,940,000			2,940,000	\$ (1,000,000)