

Workshop E

SURETY CREDIT— A “WORK IN PROGRESS”

Presented by

Joseph A. (Drew) Brach
Managing Director
Marsh USA Inc.

A work in progress report is a key indicator of a contractor's financial position. A knowledgeable review of this report can reveal information about a contractor's jobs in process, including profitability and over/under billings. The key to the work in progress report's usefulness, however, is in knowing how to interpret the information it provides. This session will begin with an overview of how a surety line of credit works and transition into a higher-level technical review of the work in progress report. Attendees will learn how to understand a work in progress report, perform a job profit trend analysis, and identify potential issues a surety underwriter should explore further. You will leave this session with a better understanding of the important roles the surety line of credit and the work in progress report play in a contractor's ultimate performance.

Joseph A. (Drew) Brach
Managing Director
Marsh USA Inc.

Mr. Brach is presenting Workshop E, "Surety Credit—A 'Work in Progress,'" on Tuesday. A Marsh employee since 1979, he has over 30 years' construction surety experience. His background includes designing and negotiating contract surety programs for power, highway, heavy industrial, general contractor, design-build, construction management, energy, environmental, transportation, marine, utilities, and developer operations.

From 1973 to 1979, Mr. Brach was with the Hartford Group's Surety Operation serving as surety underwriter and manager.

Mr. Brach has expertise in construction risk profile analysis, indemnity alternatives, balance sheet strategies, contract reviews, manuscripting and reviewing surety bond form language, bond claim management, surety captive feasibility, continuity planning, underwriting techniques used by sureties, rate benchmarking, subcontractor risk management, joint venture partner review, management continuity, surety company proposal analysis, business plan advice, ideas to increase surety capacity, surety underwriting case analysis, and solutions to surety problems.

Organization affiliations include AGC National Surety Bonding Committee and the Surety Industry Advisory Council, Surety Association of America, Construction Financial Management Association, National Association of Surety Bond Producers, and the NASBP International Committee.

Mr. Brach is an adjunct faculty member at Olivet and Aquinas Colleges. He also is a member of Marsh's Innovation Council.

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**Joseph A. (Drew) Brach
Marsh USA Inc.**

I. Importance of the Contract Schedules (handout)

- A. Summary of Contract Earnings
- B. Completed Contracts
- C. Contracts (work) in Progress

II. Contractor Work in Progress Report

- A. Percentage of Completion Accounting
- B. Components of the Report
- C. How items flow from the Work in Progress Report to the Financial Statements

III. Significance of Overbillings

- A. Definition
- B. Surety Company Interpretation

IV. Significance of Underbillings

- A. Definition
- B. Surety Company Interpretation

V. Special Items To Analyze

- A. Change Orders
- B. Claims/Disputes
- C. Litigation

VI. Example 1 (handout)

- A. Job Profit Trend Analysis
- B. Surety Company Analysis

VII. Example 2 (handout)

- A. Flowing the numbers back to the Financial Reports
- B. Surety Company Analysis

VIII. Work in Progress Report Major Points

- A. Data based on estimates
- B. Indicator of Future Profitability

IX. Surety Line of Credit

- A. Defined
- B. Purpose
- C. Components
- D. Relationship to Work in Progress Report

X. How does a Surety Company Compute a Surety Line of Credit?

- A. Einstein's Theory
- B. Newton's Law
- C. Surety Company Computation

XI. Example I

- A. Construction at Risk Backlog
- B. Surety Company Analysis

XII. Example II

- A. Surety Commitment Letters
- B. Surety Company Analysis

XIII. Surety Line of Credit Major Points

- A. Backlog at risk
- B. Cash Flow

XIV. Conclusions

- A. Contractor
- B. Surety Company
- C. Agent/Broker
- D. Improving the Surety Relationship