What Sureties Look For in Your Work-in-Progress Schedule

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One of the main ways surety companies use work-in-progress schedules is to track the profitability of projects over time. In other words, they are not just looking at the current status of jobs, but they also look at how jobs perform from start to finish.

If they consistently see a contractor's jobs trend upward at the end, it lets the surety know that the contractor is conservative with the initial profit estimates and/or the contractor has very accurate estimating and strong project management. It also gives sureties the ability to use the profit estimates to forecast how the company will do in the coming year.

If jobs consistently show a decline in profit at the end, it can raise concerns about whether the surety can rely on the financial statements. It can also lead the surety to question the contractor's capabilities.

We always recommend using relatively conservative estimates for gross profit on the work-in-progress schedule to avoid surprises at the end.

Predicting future profitability

There are a couple of simple things sureties look at to measure whether the gross profit in a contractor's backlog will be sufficient to cover the overhead. The first is gross profit percentage of work in the backlog. Some work-in-progress schedules have it calculated already, but if not, divide "Total Estimated Gross Profit" by the "Total Contract Price." This overall gross profit percentage should be greater than your anticipated annual overhead percentage.

Or take the "Estimated Gross Profit" and subtract the "Gross Profit to Date." This will give you the remaining amount of gross profit in your backlog.

Assuming the jobs performed as you expected, you can estimate how much of this gross profit will be earned in the next fiscal year and compare it to annual overhead to see if you have enough gross profit to cover your expenses, or if you're short, how much additional gross profit you'll need to earn to hit your income target.

"Costs & Profit to Date in Excess of Billings," otherwise referred to as "Underbillings," is always one of the main points sureties consider. Sureties tend to focus on projects with underbillings that are more than 50 percent complete, because they can often represent unapproved change orders. This is particularly true when underbillings remain consistent or grow.

Sureties generally treat underbillings as a lower-tier asset compared to cash or accounts receivables, and they may even discount the underbillings if there is doubt about the contractor's ability to get change orders approved and collect on them.