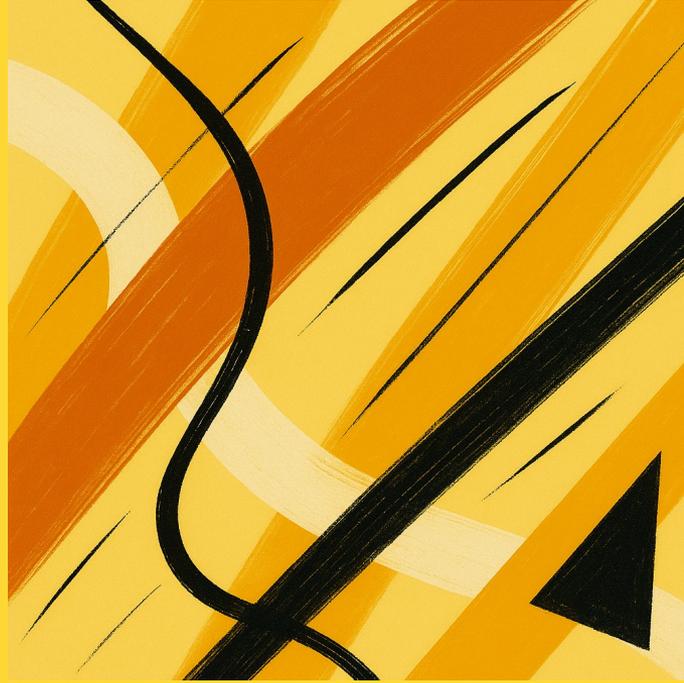


# Developing a Surety Bond Program Guide

*A comprehensive guide for contractors*

July 24, 2025



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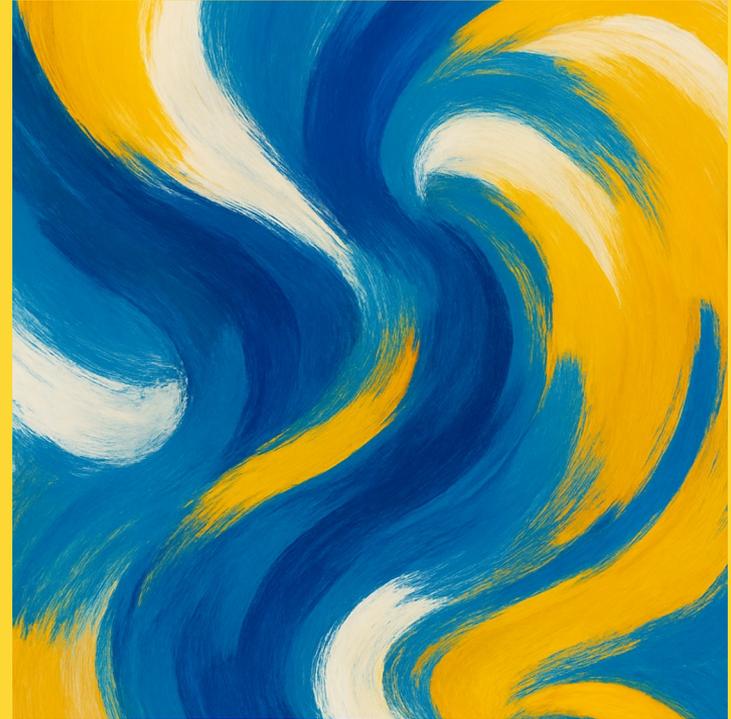
# Introduction

## *Understanding Surety Bonds and Bonding Programs*

- Surety bonds are three-party agreements involving the principal (contractor), obligee (project owner) and surety (guarantor).
- They manage risk and provide credibility to project owners by ensuring contractors deliver as promised.
- A surety line functions like a revolving credit facility, setting single and aggregate limits that expedite bidding.
- Each phase of the bonding process builds on the last, guiding contractors from readiness assessment through ongoing line expansion.

### **Key Takeaways:**

- Understand the roles of principal, obligee & surety and the credibility benefits of surety bonds.
- See how pre-qualification accelerates bidding and secures single & aggregate limits.



1



# Readiness Assessment

*Evaluate your company's ability to qualify for surety credit*

- Assess financial condition including working capital, net worth & debt-to-equity ratios.
- Review project pipeline: size, scope, client mix and geographic concentration to gauge backlog risk.
- Examine internal controls – job costing, scheduling, safety and quality management systems.
- Evaluate leadership depth: organisational chart, resumes of key personnel and ongoing training.
- Identify and address any personal credit issues early to avoid underwriting problems.
- Gather core documents such as CPA-reviewed statements, quarterly financials, updated WIP schedules and organisational chart.

## Key Tasks:

- Gather CPA-reviewed year-end and interim statements and compile a WIP schedule aligned with your general ledger.
- Prepare an organisational chart and resumes of key personnel.
- Review personal credit and resolve outstanding issues before applying.



## 2



# Pre-Qualification & Documentation

*Tell your company's story and build confidence through documentation*

- Complete a comprehensive Contractor Questionnaire and organise at least three years of CPA-reviewed financial history.
- Prepare corporate documents including articles of incorporation, bylaws and buy-sell agreements.
- Provide letters of reference from project owners and testimonials highlighting performance and reliability.
- Collect financial data: ageing of receivables and payables, backlog history and a bank reference letter.
- Disclose contingent liabilities, warranty obligations and pending claims early and clearly.
- Double-check that all financial statements are accurate, follow GAAP and match your questionnaires.

### Key Tasks:

- Ensure financial statements are accurate and follow GAAP; complete corporate documentation and questionnaires.
- Gather letters of reference, ageing reports, backlog history and bank references.
- Disclose contingent liabilities and verify your statements match questionnaires before submission.



3



## Selecting a Surety Agent/Broker

*Choose a qualified broker who advocates for your business*

- Identify construction-savvy brokers with strong market access and reputations.
- Interview at least two specialists and inquire about the surety companies they represent and contractor references.
- Discuss service expectations: bid reviews, claims assistance and regular bonding line reviews.
- Verify licensing and access to A-rated sureties and negotiate a transparent compensation structure.
- Determine whether your agreement is exclusive or allows engagement with multiple brokers as needed.

### Key Tasks:

- Interview brokers, request references and evaluate market access and compensation transparency.
- Sign a written service agreement outlining expectations.
- Assemble a dedicated surety support team familiar with your [\[5\]](#) [\[6\]](#) business.



# 4



## Financial Statement Preparation

*Build trust through high-quality CPA-prepared statements*

- Upgrade from tax-basis compilations to CPA-reviewed or audited statements and adopt the percentage-of-completion method for revenue recognition.
- Separate related entities and maintain current personal financial statements while compiling a comprehensive year-end statement (balance sheet, income statement, cash-flow statement and footnotes).
- Prepare a completed contracts and Work-in-Progress schedule that matches your general ledger and clearly discloses debt terms and contingencies.

### Key Tasks:

- Transition to CPA-reviewed or audited financial statements.
- Adopt the percentage-of-completion method consistently across projects.
- Compile a completed contracts schedule and signed personal financial statements.
- Ensure WIP schedules reconcile with your general ledger and disclose all debt terms.



# 5



## Bond Application & Underwriting

*Secure your initial bonding limits and formalise your partnership*

- Submit a complete underwriting package through your broker and respond promptly to follow-up requests.
- Negotiate and execute the General Agreement of Indemnity (GAI) including corporate and personal guarantees.
- Secure a bank letter confirming your line of credit and obtain a written approval letter specifying single and aggregate limits.
- Satisfy any conditions precedent and maintain responsiveness to build trust with your surety.

### Key Tasks:

- Assemble financials, questionnaires and references for your underwriting package.
- Review and sign the GAI; secure a bank letter and written approval outlining limits.
- Provide any additional documents required and meet conditions precedent promptly.



# 6



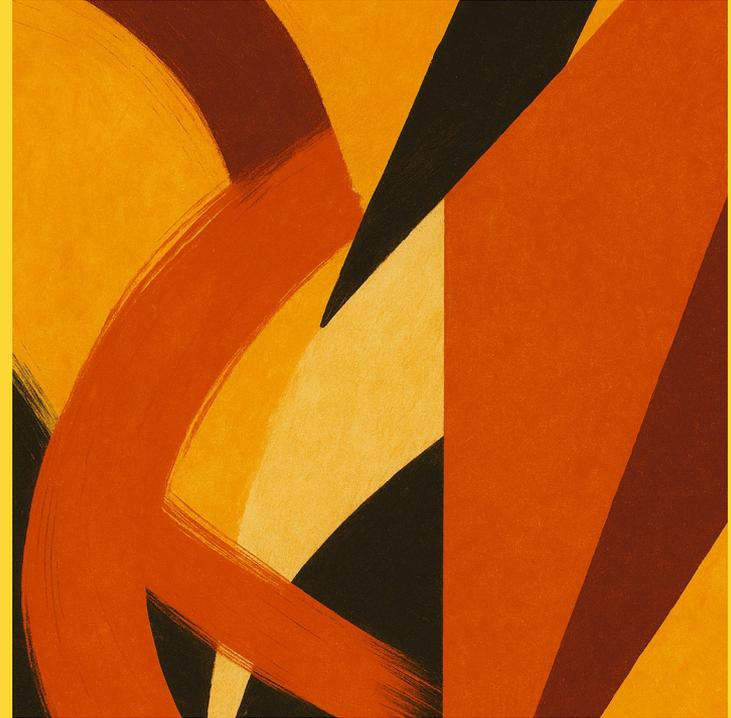
## Bid Bond Procedures

*Protect your margins and credibility with proper bid bonds*

- Verify bid documents including the required bond form, penal sum and any Consent of Surety.
- Submit requests at least seven days before the bid date and evaluate bid spread tolerance with a rationale.
- Provide the completed request form, final bid estimate and confirm the bond form meets owner requirements.
- Avoid late submissions, mislabeling or misstating the bid amount by double-checking documents.

### Key Tasks:

- Gather documents and submit bid bond requests early; review bid spread tolerance and prepare a rationale.
- Double-check final bid numbers and bond form details; maintain organised communication with your broker and underwriter.



# 7



## Final Bond Execution

*Turn your bid into a bonded contract with payment & performance bonds*

- Submit the final signed contract, subcontractor list, financing proof and updated WIP report to your surety.
- Review owner bond forms for punitive clauses and confirm the bond premium rate.
- Provide executed contract, completed bond forms, documented change-order protocol and a certificate of insurance.
- Ensure bonds are filed, the premium invoice is paid and change-order thresholds are clearly defined.

### Key Tasks:

- Compile final contract and supporting documents for the surety.
- Negotiate bond form revisions and confirm the premium invoice; report change orders promptly.
- Ensure bonds are filed and requirements are satisfied before work begins.



8



## Ongoing Line Management & Expansion

*Grow your bonding capacity through transparency and planning*

- Provide quarterly financial statements and WIP reports to keep your surety team informed.
- Hold annual strategy meetings and retain earnings to build working capital while highlighting successful projects.
- Maintain a clean claims record, address cash-flow shortages early and prepare reports on new hires and equipment schedules.
- Ensure positive cash flow and an absence of claims or disputes before requesting increases in bonding capacity.

### Key Tasks:

- Submit regular financial and WIP updates; retain earnings and highlight profitable projects.
- Plan strategy meetings and communicate growth goals.
- Avoid claims or late schedules before requesting additional bonding capacity.



# Glossary

**Surety:** The party that guarantees the contractor's performance on a project and promises to uphold obligations if the contractor defaults.

**Principal:** The contractor or business seeking the bond. The principal agrees to perform according to the contract terms.

**Payment Bond:** A bond that guarantees the contractor will pay subcontractors, labourers and suppliers. It protects against non-payment for work or materials.

**General Agreement of Indemnity (GAI):** A legal contract where the principal and often its owners agree to indemnify the surety if a claim arises. It outlines the rights and responsibilities of the parties involved.

**Obligee:** The project owner or entity requiring the bond. The obligee receives the financial protection provided by the surety bond.

**Performance Bond:** A bond that guarantees the contractor will complete the work as specified in the contract. If the contractor defaults, the surety covers the costs to finish the project.

**Work-in-Progress (WIP) Schedule:** A detailed report showing the progress, costs and profitability of ongoing projects. Sureties compare WIP schedules to the general ledger to ensure accuracy and monitor backlog risk.

**Percentage-of-Completion (POC) Method:** An accounting method that recognises revenue and expenses in proportion to the work completed. It gives sureties a clear view of job profitability and billing.

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