

Small Contractors Initiative Glossary of Key Terms

8(a) Firm: A firm participating in the SBA's business development program created to help eligible small disadvantaged businesses become independently competitive in the federal procurement market. A firm must be 51% owned and controlled by a socially and economically disadvantaged individual or individuals.

Acronyms (See Appendix A)

Agent: Representative of the Surety with power of attorney to issue bonds. They market and prepare applications to the SBA and Surety.

Allowed Working Capital: Calculated from the balance sheet as follows; Cash + Accounts Receivable + $\frac{1}{2}$ of Inventory less Current Liabilities

Ancillary Bond: Ensures requirements integral to the contract, but not directly performance related, are performed.

Backlog: (Total Estimated Costs less Costs to Date) a schedule that identifies the total amount of uncompleted work a contractor has on hand at any given time. It often used by bond agents and lenders.

Bid Bond: Bonds which provide financial assurance that the bid has been submitted in good faith, and that a contractor will enter into a contract at the amount bid and post the appropriate performance bonds. These bonds are used by owners to pre-qualify contractors submitting proposals on contracts.

BLOC: Bank Line of Credit - loans not used to purchase assets or for long term financing, it is a short term business financing option,

Bonding Capacity: A term that refers to the single job and aggregate total a company has qualified for with a Surety Company.

CAP Lines: A special type of 7(a) Loan that provides up to \$5 million to help small businesses meet their short term and cyclical working capital needs. The loan can be used to finance; seasonal working capital needs, the direct costs of certain construction, service and supply contracts, subcontracts, or purchase orders, the direct cost associated with commercial and residential construction; or provide general working capital via lines of credit that have specific requirements for repayment.

Cash Flow Management: The analysis and management of the flow of funds into and out of a business. This involves: One, tracking current cash flows and

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analyzing them to identify challenges to meeting expectations; and two, taking steps to address issues which may result in negative cash flow.

Cash Flow Projections: A one to five-year objective estimate of the cash required for smooth business operations, including income and expenses, use of loans, and sales of equipment, property and other assets.

Clearing Float: Delay between deposit of check and availability of funds to pay expenses.

Collateral Value: The discounted value of a pledged asset for loan or bond purposes if it had to be liquidated, eg. Real Estate = Market Value x 0.80 less mortgage balance; Trucks = Depreciated Value x 0.50; CDs are valued at 100 %.

Collateral: A security or asset pledged for the repayment of a loss should one occur. The most common forms of collateral in the surety industry are cash, irrevocable letters of credit and real estate equity.

Construction Accounting Methods:

- **GAAP- Generally accepted accounting principles:** Include the standards, conventions, and rules that accountants follow in recording, summarizing and preparing financial statements.
- **Cash Basis:** Recognizes income/revenues and expenditures only as they have been physically received or paid. Cash basis accounting is not useful in the surety underwriting process.
- **Accrual Basis:** Recognizes income/revenues and expenditures as they are physically received or paid and those that represent accounts receivable and payables.
- **Percentage of Completion:** An accrual based accounting method which recognizes income/profit as it progresses during the financial reporting period (yearly).
- **Completed Contracts:** An accrual based accounting system which only recognizes income/profit on projects that have been completed during the reporting period.

Copeland Anti-Kickback Act: Prohibits a federal building contractor or subcontractor from inducing an employee into giving up any part of the compensation that he or she is entitled to under the terms of his or her employment contract.

CPA Financial Presentations:

- **Compilation:** The most basic financial statement that a CPA prepares. The CPA arranges client supplied information into a financial statement format and interprets the data only to determine that it is free from obvious material misstatement. A compilation does not provide CPA assurance of the information contained in the financial statement.

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- **Review:** The CPA performs inquiries and analytical procedures to determine that the financial statement is in compliance with GAAP (generally accepted accounting principles) and includes all disclosures
- **Audit:** The CPA must gain and document a broad understanding of the clients business, internal controls and accounting procedures. In addition, the CPA will make inquiries, perform analytical procedures and test the company's accounting procedures.

Current Assets: Cash, marketable securities, accounts receivable and stored materials

Current Liabilities: Trade credit, bank loans, and accrued short-term liabilities.

CWH&SS Act: Federal Law requiring federally assisted construction contracts worth over \$100,000, to pay laborers and mechanics employed in the performance of the contracts one and one-half times their basic rate of pay for all hours worked over 40 in a workweek. This Act also prohibits unsanitary, hazardous, or dangerous working conditions on federal and federally financed and assisted construction projects.

Davis Bacon Fair Wages: Establishes the requirement for paying the local prevailing wages on public works projects for laborers and mechanics. It applies to "contractors and subcontractors performing on federally funded or assisted contracts in excess of \$2,000 for the construction, alteration, or repair (including painting and decorating) of public buildings or public works". Certified weekly payrolls must be submitted on form WH-347. CDBG funded residential rehabilitation has an exemption for residential property that contains up to 7 units. Labor standards provisions apply to any contract for the construction of 12 or more HOME-assisted units.

Delivery Float: Time delay between contractor installing component and when it is approved for payment by architect.

Disadvantaged or Minority Business Enterprise (MBE): Government contracting gives preference in awarding a portion of each project to companies which qualify under an established category. The SBA criteria are:

- At least one objective distinguishing feature such as race, ethnic origin, gender, physical handicap, long-term residence in an environment isolated from the mainstream of American society, or other similar causes not common to individuals who are not socially disadvantaged.
- Personal experiences of substantial and chronic social disadvantage in American society, not in other countries.
- Negative impact on the individual's entrance into the business world or advancement in the business world because of the stated disadvantage(s).

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E-App System: The online surety bond application system prompts you to print, sign and mail the required forms to your surety company or agent.

Factoring: A type of debt finance in which a business **sells** its accounts receivable (i.e., construction draws) to a third party (called a factor) at a discount in order to raise cash for working capital.

FedBizOpps.gov: The on-line site where federal government agencies post procurement opportunities over \$25,000.

Financial Ratios: Used to determine the efficiency and profitability of a company, and its capacity for borrowing or bonding. Using the financial statements, ratios compare one number to another. (See Appendix C)

Financial Statements:

- **Balance Sheet:** Provides a company's assets, liabilities and equity position at a particular point in time (i.e. as of 12/31/2015)
- **Income Statement also Profit & Loss Statement:** Reports the; revenue/sales/income, expenses and profits of a company over a period of time (i.e. for the period 1/01/2015-12/31/2015)
- **Statement of Cash Flows:** Provides details regarding the cash flow activities of a company over a period of time with regard to operating, investments and financing activities
- **Statement of Retained Earnings:** Explains the changes in a company's portion of net income undistributed by the company to its owners or shareholders.

Funds Control: The services of a 3rd party organization to oversee, collect and disburse the monies collected on a construction project throughout its completion.

HOME Funding: Grants provided by the U.S. HUD to States in order to provide decent and affordable housing, particularly housing for low- and very low-income Americans. It is the largest Federal block grant to States and local governments designed exclusively to create affordable housing for low-income families, providing approximately US\$2 billion each year .

HUB Zone: Historically Underutilized Business Zone - A small businesses with 35% of its staff living in a HUB Zone. The company must also maintain a "principal office" in one of these specially designated areas.

Image Goals: Statements defining how you wish your firm to be perceived by your; employees, partners and customers.

Indemnity Agreement: The indemnity agreement obligates the named indemnitors to protect the surety company from any loss or expense caused by

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the contractor's failure to fulfill its bonded obligation on the project(s) and any resultant loss under the surety bond. This gives the surety assurance that the contractor will use its talent and financial resources to resolve any difficulties that may arise in the performance of the bonded work.

Invoice Discounting: Borrowing that involves the use of the accounts receivable assets as **collateral** for the loan.

Joint Venture: In the SBA Mentor-Protégé Program, an agreement between a certified 8(a) firm and a mentor firm to joint venture as a small business for a government contract.

LINC (Leveraging Information and Networks to Access Capital): An online referral tool to connect small business borrowers with participating SBA Lenders. Prospective borrowers complete a short online questionnaire. The responses to that questionnaire are forwarded to participating SBA Lenders.

Local Business: For Section 3 compliance, local is the city or county in which the project resides.

Maintenance Bond: Guarantees that any defects in workmanship or materials will be remedied within a specified time period, usually one to two years

MARK-UP: Overhead, profit and contingency as a percent of total job cost.

Minority Business Enterprise (MBE): (See "Disadvantaged Business")

Net Working Capital: Current assets less Current liabilities

Obligee: Project owner who contracts with the Principal for the performance of a contract. If the Principal defaults on a project the Obligee is made whole by the Surety. The obligee (project owner) may be a private individual, a company or a government agency.

Over/Under Billings: Over billings are those that exceed the actual incurred costs and earnings on the job to date, also termed "Billings in Excess of Costs and Estimated Earnings."

Payment Bond: Guarantees that subcontractors, labor and material suppliers will be paid for their work

Performance Bond: Guarantees the contract will be successfully completed in accordance with contract; terms, specifications and requirements.

Preferences: Congress first enacted a procurement goal in prime contracting for small business in 1988. (See Appendix B)

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Preferred Surety Bond Program: A bonding program where selected sureties receive a 70 percent bond guarantee and are authorized to issue, service and monitor bonds without the SBA's prior approval.

Principal: Small business/contractor or its owner(s).

Prior Approval Program: Bond guarantee applications are submitted to SBA for prior review and approval. SBA guarantees 90 percent of the losses incurred on 1) contracts up to \$100,000, 2) on contracts awarded to the following types of businesses:

Processing Float: Delay between approval of draw payment and its receipt in general or sub's account.

Risk Mitigation: Process, products, services, timing and tools that increase the probability of achieving a business objective, including: Team Selection, Design and Specification, Performance Guarantees, Production Maintenance, and Change Order Management, which serve to increase the probability of completing a project; per spec, on time and under budget.

Risk: The probability of failure to achieve a business objective; includes both needless and inherent risk in project management,

Section 3: Provision of Housing and Urban Development Act of 1968 that helps foster; local economic development, neighborhood economic improvement, and individual self-sufficiency by promoting and rewarding firms that hire lower income and local employees.

Sensitivity Analysis: The formal name of "What if?" or plan B analysis. Sensitivity analysis answers the business planning question, "If these variables deviate from expectations, what will the effect be on the business?"

Service Disabled Veteran-Owned Small Business: A small business that is at least 51% owned by one or more service-disabled veterans. Disabled Business Service Disabled Veteran (SDV) must have a service-connected disability that has been determined by the Department of Veterans Affairs or Department of Defense.

Set-Asides: Various federal, state and local funding programs require that a portion of their funding be set aside for disadvantaged and/or local contractors. Federal government purchases that have an anticipated dollar value exceeding \$3,000, but not over \$150,000 are automatically reserved or set-aside for small businesses.

Small Business: SBA loan programs and contracting opportunities, are reserved for small business concerns.

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SBA Small Business Forms (See Appendix D)

Small Business Investment Companies (SBIC): Privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses.

Surety Bonds: Three-party agreements in which the issuer of the bond (the surety) joins with the second party (the principal) in providing protection to a third party (the obligee) regarding fulfillment of an obligation on the part of the principal. An obligee is the party (person, corporation or government agency) to whom a bond is given. The obligee is also the party protected by the bond against loss.

Surety: Corporate entity legally responsible for paying claims after a Principal has defaulted and SBA's program partner.

System for Award Management (SAM): Database located at www.sam.gov. All current and potential government vendors are required to register in this database in order to be eligible for contract awards and payments.

Uniform Physical Conditions Standards: An Inspection protocol developed by HUD to certify that residents live in decent, safe and sanitary housing. The UPCS has become a minimum construction standard in multi-family and other subsidized properties

Veteran or Service-Disabled Veteran-Owned small businesses

WH-347: This form or similarity must be used by contractors to submit certified weekly payrolls for contracts subject to the Davis-Bacon.

Women Owned Small Business (WOSB): A small business that is at least 51% directly and unconditionally owned and controlled by one or more women who are citizens (born or naturalized) of the United States. An Economically Disadvantaged Women Owned Small Business (EDWOSB) is also a small business that is 51 percent ownership must be management and daily business operations of the concern must be controlled by one or more economically disadvantaged women.

Working Capital: The cash available for day-to-day business operations. This is a commonly used measure of liquidity and short term financial health.

Work-in-Progress Schedule: a surety and lender underwriting tool to track the progress and financial performance of a contractor's uncompleted projects.

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Appendix A Acronyms

CDBG – Community Development Block Grant
CFR – Code of Federal Regulations
CPR – Certified Payroll Report
CWHSSA – Contract Work Hours and Safety Standards Act
DBA – Davis-Bacon Act
DBRA – Davis-Bacon and Related Acts
DOL – Department of Labor
FHA – Federal Housing Administration
FLSA – Fair Labor Standards Act
HUD – Housing and Urban Development (Department of)
IHA – Indian Housing Authority
IHBG – Indian Housing Block Grant
LCA – Local Contracting Agency
LDP – Limited Denial of Participation
O/T – Overtime
PHA – Public Housing Agency
S/T – Straight-time
SAC – State Apprenticeship Council/Agency
TDHE – Tribally-Designated Housing Entity

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Appendix B Preference Goals

Program	Prime	Subcontracting	Statutory Reference
Small Business	23		Public Law 95-507 § 221 (1978) & 105-135 § 603(b) (1997 increase to 23%)
Small Disadvantaged Business	5	5	Public Law 100-656 § 502 (1988)
Women-Owned Small Business	5	5	Public Law 103-355 § 7106(a) (1994)
HUBZone Business	3*		Public Law 105-135 § 603(b) (1997)
Service-Disabled Veteran-Owned Small Business	3	3	Public Law 106-50 § 502(b) (1999)

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Appendix C Financial Ratios

Appendix A Common Financial Ratios

Liquidity

Ratios	Calculation	Generally Accepted Comfort Range
Number of Days of Cash	$\frac{\text{Cash} + \text{Equivalent}}{\text{Annual Revenue}} \times 360$	7 days or more
Accounts Receivable Turnover	$\frac{\text{Accounts Receivable} \times 360}{\text{Revenue}}$	45 days or less (Excluding Retentions)
Accounts Payable Turnover	$\frac{\text{Accounts Payable} \times 360}{\text{Cost of Earned Revenue}}$	45 days or less (Excluding Retentions)
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Greater than 1.2
This ratio is an indication of a firm's ability to handle its current liabilities. The higher ratio shows a numerical superiority of current assets over current liabilities. However, the composition and quality of current assets is a critical factor in the analysis of liquidity.		
Working Capital to Backlog	$\frac{\text{Working Capital}}{\text{Cost-to-Complete Backlog}}$	5 – 10% or greater
Quick or Acid Test	$\frac{\text{Cash} \& \text{Receivables}}{\text{Current Liabilities}}$	Greater than 1.1
Any value of less than 1 to 1 implies dependency on inventory or other current assets to liquidate short-term debt		

Net Worth

Ratios	Calculation	Generally Accepted Comfort Range
Debt to Net Worth	$\frac{\text{Total Debt}}{\text{Net Worth}}$	2.1 to 3.1
This ratio expresses the relationship between capital contributed by creditors and that contributed by owners. The higher the ratio, the greater the risk being assumed by creditors. A low debt/worth ratio usually has greater flexibility to borrow. A more highly leveraged company has a more limited debt capacity.		
Fixed Assets to Net Worth	$\frac{\text{Fixed Assets}}{\text{Net Worth}}$	10 – 40%
This ratio measures the extent to which the owner's equity (capital) has been invested in plant and equipment (fixed assets). A lower ratio indicates a smaller investment in fixed assets in relation to net worth, and a better position for creditors in case of liquidation.		
Net Worth to Backlog	$\frac{\text{Net Worth}}{\text{Cost-to-Complete Backlog}}$	5 – 10% or greater
Sales to Net Worth	$\frac{\text{Annual Revenue}}{\text{Net Worth}}$	Should not exceed 13 times Net Worth – Could indicate over trading capital resources

Profitability

Ratios	Calculation	Generally Accepted Comfort Range
Gross Profits to Sales	$\frac{\text{Gross Profits}}{\text{Annual Revenue}}$	5 – 10%
Overhead to Sales	$\frac{\text{General} \& \text{Administrative Expenses}}{\text{Annual Revenue}}$	5 – 10%
Overhead to Net Worth	$\frac{\text{General} \& \text{Administrative Expenses}}{\text{Net Worth}}$	60% or less
Net Profit Before Taxes to Sales	$\frac{\text{Net Profit Before Taxes}}{\text{Annual Revenue}}$	2% or greater
Return on Equity	$\frac{\text{Net Profit of Prior Year}}{\text{Net Worth of Prior Year}}$	15% or less
This ratio shows the rate of return on capital. While it can serve as an indicator of management performance, it should be used in conjunction with other ratios. A high return, usually associated with effective management, could indicate an undercapitalized firm. A low return, usually an indicator of inefficient management performance, could reflect a highly capitalized, conservatively operated business.		

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Appendix D SBA Small Business Forms

- [SBA Form 413](#) – Personal Financial Statement
- [SBA Form 912](#) – Statement of Personal History
- [SBA Form 991](#) – Surety Bond Guarantee Addendum
- [SBA Form 994](#) – Application for Surety Bond Guarantee Assistance
- [SBA Form 994F](#) – Schedule of Work in Process
- [SBA Form 990A](#) – Quick Bond Guarantee Application and Agreement