<u>BEST PRACTICES</u>

Widely used throughout the Construction industry, the most common billing document used by Owners, General Contractors, Construction Managers and Trade Contractors is based on the American Institute of Architects' (AIA) G702 Cover Sheet and G703 Continuation Sheet. While these documents exist in original form and are available from the AIA, both of them have been modified and adapted by individual users to suit a variety of preferences and styles. The G702 Cover Sheet, while often styled slightly different from project to project, essentially contains the same basic information, regardless of format. General speaking, it contains the following:

1. Original Contract Sum – Amount should equal value in Contract
2. Net Change by Change Orders – Summarized in separate Block
3. Contract Sum to Date – Original + Change Orders
4. Total Completed & Stored to Date (from the G703) – Gross cost billed to date
5. Retainage – Total Amount held back from Gross Amount
6. Total Earned Less Retainage – TC&STD less Retainage
7. Less Previous Certificates – Aggregate value billed previously
8. Current Payment Due – Net Billing for the period.

Other than a few style preferences, the basic information described above seldom changes. On the other hand, the **G703 Continuation Sheet** has undergone vast style, content and format changes to suit the particular preferences of many. Unfortunately, no industry standard exists that defines how or what it should look like. Consequently, various versions of the G703 are in existence today. As expected, the resulting Continuation Sheets in their varying forms (designed and modified by many), are "all over the map" in terms of format. Regardless of format, all are designed to work in some fashion or another. However, Continuation Sheets that are poorly conceived and designed are often cumbersome, unwieldy, inefficient and sometimes ineffective. Some of the shortcomings of these designs include:

1. No correlation to original Schedule of Values (SOV) in authorizing document (Contract Exhibit, GMP Amendment, Change Order, etc.)
2. Using Line Item codes, such as "Pay Item" for each row of data, that has **no correlation** to the Contract Exhibit, the job set up for cost accounting, the job estimate in CSI format or the buyout of trades.
3. Failure to provide cost or phase code references for easy mapping to billed data
4. Failure to list trades (subcontractors and suppliers) by name
5. Comingling trade costs with non-trade costs on a single line item
6. Comingling multiple trade costs (different vendors) on a single line ite
7. Combining same trades (same vendor) with multiple contracts on a single line item
8. Inclusion of detailed Subcontractor Line Items on prime contractor G703
9. Splitting single trade costs into multiple line items
10. Displaying Change Orders as composite values on a single row or multiple rows "below" the original contract sum.
11. Not clearly identifying or creating specific line items for individual Contract Allowances

BEST PRACTICES

We believe that a properly functioning G703 Continuation Sheet should be simple to prepare, easy to understand and easy to review, thus both efficient and effective. Desired attributes of a *refined* G703 are described below:

1. Original SOV values, as specified in the contract exhibit or amendment, should be reflected in the Original Contract Sum column. For emphasis, these values should SELDOM CHANGE. Specifically, line item values should not be changed and shifted to other line items.
2. Line Item "reference" numbers should correlate with the original authorizing document such as the Contract Exhibit containing the Schedule of Values.
3. Ideally, a secondary set of Line Item numbers can reference the specific cost or phase code within the Contractor's job cost system. This would provide convenience and ease when mapping billed data to actual cost data (on contracts, like a GMP, where actual costs + fee is the defined basis of payment)
4. In addition to the "Trade Description or Scope of Work", a secondary field should include a reference to the "Trade Name" (where applicable) of who is actually performing the work. If "self-perform" by contractor, that should be stated in this field. If the line item is an Allowance, the word "ALLOW" should be used in this field.
5. All trades (subcontractors and suppliers) should be assigned to their own unique line item and their costs should not be commingled with any other costs (trade or non-trade). If trades (subcontractors and suppliers) have more than one contract, then they should have a unique line item for each specific contract.
6. All trades should be grouped and subtotaled in their own Section under "TRADES."
7. All non-trades costs should be grouped and subtotaled in their own Section under "OTHER DIRECT COSTS."
8. General Conditions and/or General Requirements should be listed as one single line item (especially when defined as Fixed or Lump Sum). If such costs are defined as actual with or without a NTE, then a "secondary" G703 Continuation Sheet should be prepared that captures all of the detailed line items comprising such General Conditions and/or General Requirements. The totals from this secondary Continuation Sheet should exactly correlate with the single line item on the primary Continuation Sheet.
9. General Conditions, Trades and Other Direct Costs should be subtotaled and referred to as "COST OF WORK Before MARKUPS." The Final Section shall be referred to as MARKUPS and should only include items specified as a DEFINED COST rather than actual (since they have no cost basis). Defined Cost shall mean a % based calculation or stipulated amount. Such section should include Contractor Fee and Contingency (if applicable). It might also include items such as Bonds, Subguard, Insurance, Warranty, Tax, etc. For the sake of clarity, if an item is to be reimbursed at actual cost, rather than stipulated or calculated (and it is not included within General Conditions), it should be listed under "OTHER DIRECT COSTS" rather than "MARKUPS."
10. Change Orders should be displayed using a column format rather than a row format below the original contract value. The total value of the change order should be split into the respective lines items based on scope of work in which it is related to. The aggregate value of the Change Order column should reflect the Net Value of all Change Orders approved to Date.

BEST PRACTICES

11. As stated earlier, the Original Contract Sum column should remain intact (for all intents and purposes) from inception through contract close. And, monies should not be transferred from one line item to another by using savings in one line to offset cost overruns elsewhere. However, from time to time, there is a legitimate need to transfer money from one line item to another to reflect changes in scope. If this is not done via Change Order (which is the preferred method), then we recognize that Line Item Transfers (LIA's) are sometimes preferred by Owners and contractors for simplicity. If such a method is used, then an additional column should be created to only contain LIA's. The column should NET to zero ($0) by definition and be fully trackable on an individual line item basis.
12. The Revised Contract Sum or Contract Sum to Date should be a simple mathematical formula of: The Original Contract Sum + Change Orders + LIA's (if used).
13. The "Work from Previous Certificates" must ALWAYS match the "Total Completed & Stored to Date" from the prior Application for Payment (for each line item and in total). There can never be an exception to this basic principal.
14. For all intents and purposes, the scheduled values (SOV) for all Allowances, GMP Holds and Contingency should never have any values (other than $0) shown in the "Total Completed & Stored to Date" column. All costs associated with these items should be reflected within the line items where the work actually occurred. The only things that should affect these line items are Change Orders and LIA's as they are dispositioned. In theory, the Revised Contract Sum for these items should be zero ($0) at project completion.
15. If desired, a Buyout Savings line can be incorporated in the "Markups" section to account for the collective differences in Contract Awards against budgeted line items for each respective trade contract.
16. GMP contracts, in particular, are not "*line item"* guarantees. Rather, the GMP contract is a *"bottom line"* guarantee only. As such, any negative values reflected in the "Balance to Finish" column (indicating that the Billed Amount is greater the Scheduled Value) should not be cause for alarm because it does not matter on a line item basis. It is only the bottom line (**Guaranteed Maximum Price**) that cannot be exceeded. THEREFORE, as mentioned in #11 above, moving monies from one line item to another to eliminate negative values should be discouraged or eliminated. Seeing and understanding the *true* line item variances will generally provide far greater meaning than seeing all line items billed at 100% of scheduled value (or lower). Moreover, repetitive line items billed at 100% of the schedule value provides a false sense of security because the likelihood that actual costs will exactly equal the SOV for each line item, at project completion, is virtually non-existent and viewing such could be an indicator that the project was billed on a percentage-of-completion basis (like a Lump Sum contract) rather than a substantiated basis.