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# HOW TO INCREASE YOUR CONTRACT SURETY BOND LINE

Looking to increase your single or aggregate bonding limitations? What any contractor can do to wow their bonding company and increase the bond amounts in which they qualify for.

**What Bonding Companies Want:**
Bonding companies are guaranteeing your performance. Therefore, they want to feel comfortable that you have the experience and financial means to effectively complete your project. If a claim arises, the surety wants to know you will do everything you can to alleviate the situation and prevent a loss.

**Experience:**
A bond underwriter needs to know that the managing members of an organization have previous experience in the line of work in the contract. They also want to know about any education, accomplishments, and certifications. You will want to create a resume just as if you were applying for a job for the key individuals of your company. The goal is to give the underwriter the confidence that you will not cause a claim while being 100% honest.

**Business Financial Statements:**
Experience in a line of work does not necessarily mean you have the ability to complete the job without fault. An underwriter needs to know that your company is financially prepared for all scenarios. They will need your balance sheet and profit and loss (also known as income statement) statements. The underwriter is going to want to see your most recent year end business financial statement (sometimes 2 years) and possibly a current statement. The current statement can be internal. Lets take a look at what you can do to make your company look it's best on paper!

## 1) Choosing the proper accounting method

**Cash Method –** The most simplistic method of them all. It works just fine for taxes, but does not give the meaningful data that an underwriter needs in order to approve you for a large bond line.

**Accrual Method –** A big step up from a cash basis. It includes additions like accounts receivable accounts and gives an underwriter a much clearer picture. However, it may not be appropriate if you are a large contractor eyeing up large public contracts.

**Percentage of Completion Method –** An ideal method for most large contracts.

**Completed Contract Method –** The most sophisticated method of all. It is not necessary except for mega-multi-year contracts.

**TIP:** It's a good idea to discuss what method best suites your needs with your agent, as you don't want to pay your CPA for work unnecessarily.

## 2) Choosing the proper statement type

**Compilation Report –** The most basic type of financial statement. A compilation report will not allow a contractor to do any work above $500,000.

**Reviewed Report –** A reviewed statement will suffice for most contractors, as using this type of report along with the "Percentage of Completion Method" will allow for limits up to $20 million.

**Audited Report –** The highest level of assurance for accurate figures.

**TIP:** Not sure what type of report your CPA is preparing? You can always find it on the first page of the statement.

## 3) Add to your net worth

A companies net worth is a very big determining factor for suretyship qualification. For tax reasons, you likely try to get your net worth as low as possible. However, when it comes to a bond line, the higher your net worth is the better. Lowering tax payments and increasing bond lines are completely opposite goals, so you will need to decide on what is more important. Let's take a minute to review some things you can do to increase your company's net worth.

**Loan your company money –** A temporary fix for a low net worth. Obviously, you are going to want the company to repay the loan someday, so net income will eventually have to increase to compensate. Also, the surety may require a subordination agreement that prevents the company from paying you back without surety consent.

**Corporate Stock –** Selling corporate stock would also increase your net worth and would be preferred over a loan.

**Loan Repayment –** If the company has lent any funds to the stockholders, now may be a good time for repayment, as this asset will be deducted by the surety, but not by Uncle Sam. If the loan is on your year end financial statements, a letter from your accountant that the loan has been repaid should suffice.

**Recoup Depreciation –** At year end your CPA likely depreciates the value of your equipment to maximize tax savings. Unfortunately, that doesn't always go well with surety underwriting. You can recoup the depreciation and increase your net worth by getting an independent appraisal of the forced sale value of the equipment.

**Decrease Expenses -** Taking a smaller salary could be a big help if you can afford to do so. If you are paying yourself a large amount, you may be taking all of the net worth out of the company. Perhaps it is a good idea to take a smaller salary to increase your bond line in an effort to increase gross profit. Once you get the gross profit up you can put your salary back accordingly.

## 4) Keep your accounts receivable up to date

Accounts receivables over 90 days are considered noncollectable by bonding companies. This means they will deduct anything older than 90 days from your assets, thus reducing your net worth in the eyes of the surety. The one exception to this rule is for retainages. If that is the case, be sure to have your CPA provide clarification on it, as the surety will count A/R over 90 days if you can show you will eventually collect.

## 5) Keep your Work on Hand Schedule up to date

Also known as a "Work In Process", a work on hand schedule informs the surety of your current workload. Underwriters can use the schedule to assist in forecasting future income for your company. A healthy forecast may persuade an underwriter to approve a borderline account. (WOH schedule must also be kept up to date in order to keep your bond line clear)