M Surety Services

Your access to surety credit provides the means to bid on larger public jobs. Our agency would like to give you an inside take on the factors surety underwriters use to determine the surety limit they offer a contractor.

Feel welcome to give me a call to discuss any of the points mentioned or if you are looking for ways to expand your surety line.

**Accurate financial reporting is one of the keys to maximizing surety credit.**

*The contractor that can accurately track their results and report them to their underwriter promptly will be in the best position to get the most surety credit possible.*

**Below are some tips that can be followed**

1. Get the right software package
2. Talk to your agent or underwriter about the metrics they are looking for
3. Make sure your CPA knows that you are trying to not only pay lower taxes but also maximize your surety credit.

**Software Package**

One of the more popular accounting systems that we see in the construction world is Quickbooks, which has the capability to set up your books on both a cash and accrual basis. Online packages for Quickbooks start as low as $35/month. Details can be found on their website: https://quickbooks.intuit.com/.

For analysis by a bond underwriter, the contractor needs to use at least simple accrual accounting. A good contractor can realistically close their prior month's books within 2 weeks of the month’s end. This ensures that the underwriter has the most current information possible. In the accrual accounting method, expenses and income are recorded when they occur, even if payment or revenue will be made at a future date. In the cash accounting method, expenses or revenue are only recorded when actual payment is made or income received.

**Metrics**

When it comes to what the underwriter wants to see, here are some basic metrics:

1. **Strong liquidity** - at least 5% of the bonded aggregate needed. For example, if you needed $1M bond limit for all of the bonds required for the job you are bidding on, the underwriter would like to see at least $50,000 in cash or a line of credit with that capacity.
2. **Solid working capital** (*current assets – current liabilities*) - at least 10% of the bonded aggregate needed

3. **Solid net worth** (*total assets – total liabilities*) - at least 10% of the bonded aggregate needed
4. **Steady growth in sales** (*less than 150% prior year*)
5. **Profitability**

These are not all of the metrics that an underwriter looks at, but they will cover a lot of what they need.

**Partnering with a CPA**

Another key to growing your surety credit is to partner with a good Certified Public Accountant (CPA). The CPA should specialize in contractor accounting and prepare your accounting reports on a percentage of completion basis. Asking how many contractors an accountant currently has as clients will give you a good idea of their level of experience with preparing financial statements for contractors.

To lower your tax burden, your CPA may prepare your tax return on a cash accounting basis. This is perfectly fine, but you need to instruct them that you also need your financials prepared to present to your surety company, so they need to also be stated on at least a simple accrual basis, and depending on the size of your company, perhaps on a percentage of completion basis.

While we realize it is a good tax reduction strategy to use cash basis accounting, lowering taxable income at the end of the year, the surety underwriter wants to see a more accurate picture of your performance and financial strength, which is achieved through the accrual accounting method.

As a growing contractor, having accurate financial records, and working with an experienced CPA to prepare your financial statements will go a long way in qualifying you for larger bonds and better rates.

Feel welcome to reach out to me if you would like a referral to an experienced CPA who works with contractors.

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