



## STRATEGIES TO OBTAIN SURETY BONDING



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**S**urety companies rely on your financial statements to determine if you meet the criteria for bonding. Failure to qualify for surety bonds can limit the size and number of jobs you can accept. Underwriters look at the financial health of your company by measuring your capacity, character and working capital so your ability to successfully manage people, cash flow, and job projects is critical. The following strategies can help to insure that you obtain surety bonding.

### Relationship Development

- Develop a solid relationship with your surety bonding agent. Introduce your surety agent to your management team, key employees or business partner(s) and involve them in the process. Let your agent know that your company has a plan and direction. Share your goals with your bonding agent. By first identifying goals for your company and then sharing them with the agent, you will build tremendous character credit when you achieve your goals. If you fall short or miss the goal, demonstrate to the agent what you learned from the experience and how you developed procedures to minimize a re-occurrence.
- Follow-up with periodic meetings so that there is an open dialogue of communication. This will reduce the risk of the bonding company being surprised at job end or year end. Too often communication occurs at year end or when more capacity is needed. This puts the risk on the agent to extend your surety line without the necessary background information on your company. By allowing them to witness your growth, the agent will be more comfortable with taking that leap for expanding your bonding capacity.
- Remember that they have other clients as well. Agents know what the industry is doing and how other owners are handling the economy, labor issues, etc. You want to be the company they use as a positive example when talking to other business owners. This is only accomplished when they have confidence in how you handle your business. In real estate, it's location, location, location. In bonding it's communication, communication, communication.

## Management Advice

- Write a clear and concise business plan. Make sure it establishes realistic growth objectives on projects. Implement proper controls so that you have a complete understanding of the status of your jobs. Know the profit on each job at each stage of construction. By demonstrating the ability to estimate projects accurately, you will not only increase your profitability and grow your company; you will make bonding decisions easier.
- Continually train project managers and estimators. They provide the key ingredient to the success of your jobs. No job is ever estimated to lose money, but many do. Make sure that every project manager and estimator knows the variables that affect the costs for your company. Do not take for granted their understanding of the industry. Bring your project managers and estimators to trade association meetings so they will be thoroughly knowledgeable on industry trends and challenges.
- Enter into contracts with financially sound parties with equitable terms and conditions. No one wants to do business with someone who takes advantage of them. You can get away with it once, seldom twice. Look at the long term picture and do not be satisfied with making a quick dollar today. Will this customer be doing more in the future and will he select you after a bad experience? The value of a referral from a satisfied customer is worth more than any advertising. The same holds true for you, do not look to take a beating just because you can get the job today as opposed to losing it to a competitor. Let him take the beating and you look for someone who's thinking about tomorrow and not just today.
- Be prepared for a downturn in the market or a problematic situation. Think out potential problems before they occur. Discuss with your team what to do when adverse conditions are unavoidable. Many times owners share either good fortunes or remind everyone of the failures. We all have both, so tell your team the good, the bad and the ugly.

## Financial Considerations

- Invest in an accounting and estimating system that was designed for the construction industry. Build your balance sheet up so that it can withstand the consequences of a poor performing project. Too often companies focus on profits and losses, which are obviously important. Surety agents also look at assets and liabilities. Know the industry benchmarks. Are your receivables current? Are your accrued expenses reasonable for the size of your company? Meet with your financial advisors, they should routinely discuss these benchmarks with you. Grow your profit margin and your retained earnings as well. The balance sheet can not be overlooked. Remember at the start of



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every year, revenue and expenses are zero, but you bring forward your assets and liabilities.

- Establish a line of credit and use it to pay bills on time, especially to your financial institutions, employees, contractors, and material suppliers. Establishing good credit may seem like a fundamental, but sometimes it is overlooked. Your banker and your surety agent have very similar concerns, and keeping on good terms with one speaks volumes to the other. Whenever possible, take advantage of discounts offered by material suppliers. Also, pay attention to your own personal credit management.

As one of the leading accounting and consulting firms for the construction industry, Cowan, Guteski & Co., P.A. understands how important your financial statements are to securing the financing and/or surety bonds you require to keep your business operating and growing. Contact Bill McNamara, CPA - Director of the Construction Services Group at 732-349-6880 extension 116 or [bmcnamara@cowanguteski.com](mailto:bmcnamara@cowanguteski.com) for more information on obtaining surety bonding.

#### **About Cowan, Guteski & Company, P.A.**

As a diversified certified public accounting firm, Cowan, Guteski & Co., P.A. is committed to being an active partner in their client's growth by delivering quality, valued-added services. With a focus on the construction industry, they provide business consulting, profitability enhancement, wealth management, forensic accounting and litigation support, in addition to traditional accounting and tax services. Cowan, Guteski & Company is a member of CPAmerica International, one of the world's largest networks of independent certified public accounting firms. This affiliation allows them to offer clients the broad range of services and resources of a national firm, as well as the close personal attention and local market knowledge they expect and deserve. Visit [www.cowanguteski.com](http://www.cowanguteski.com) for more information on the services available to meet the unique needs of the construction industry.



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