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Surety-Oriented Considerations at Year-End

By Lori Olson, Goldleaf Surety Services New Business Intake Manager

How a company deals with year-end planning issues can have a significant effect on what kind of surety support Goldleaf can achieve for them in the upcoming year.

Owners/managers whose businesses are profitable and growing sometimes fail to prioritize year-end issues with their future surety support in mind. They may consult other professionals - for example, their attorneys, bankers and tax accounts. However, good advice from these perspectives may not further, and actually can compromise and destroy, a company's surety capacity. Therefore, if continued or expanded surety support is critical to a company's growth next year, they need to weigh surety-oriented considerations against the other considerations that guide their year-end planning.

- **Consider upgrading the company's year-end financial statements.** Increased surety capacity depends greatly on the "reliability" of the financial information provided to the surety company. Generally, surety companies prefer to see financial statements prepared by a respected certified public account (CPA) that is familiar with the company's industry. In all cases, you should have your year-end statements prepared on the "accrual basis." Statements prepared on the "income tax basis" or "cash basis" will present the weakest picture of the company's financial position.
- **Build equity.** If a company is a "S-Corp," accumulating equity may seem counter-intuitive. After all, owners are paying personal income tax on the company's earnings, and it may seem right to take out what you have been taxed on. However, a company's bonding capacity depends, in large part, on company equity.
- **Do not over-emphasize tax planning.** No one wants to make money and send it all to Washington, D.C. However, if a company has had a profitable year and wants to continue growing with contracts that require bonds, they need to balance their tax planning against the other goals of the company. Reducing taxable income means reducing the net income that otherwise can be used to show profitability and equity growth on the company's financial statements.
- **Owners should check their personal credit scores.** Individuals are now entitled to obtain a free copy of their personal credit report from the three major credit reporting agencies each year. Owners should take advantage of this as all surety companies check personal credit when underwriting for surety support.
- **Improve the company's "working capital" position.** Positive working capital is a major factor in bonding.
- **Improve the company's "liquidity."** Before year-end, clean up as many of the accounts receivable as possible and convert to cash.
- **Obtain an increase on the company's operating line of credit.** As a company's revenues grow, its operating credit facilities should be growing as well.
- **Do not undertake ownership changes without considering the surety implications.** Depending on how they are financed, buy-outs and other ownership changes can compromise (and, in some cases, can destroy) a company's bonding capacity. Anyone planning to stay in the company should be aware that if an ownership change in not handled properly from the surety company's perspective, the resulting loss of bonding capacity will drastically drop the value of the surviving company.

It is not only at year-end when companies may be making decisions which will impact their financial statement. During anytime of the year when decisions arise which may impact the financial statement, companies should contact Goldleaf to discuss the impact of those decisions on their bonding support. Goldleaf Surety can provide counsel to agents and their insureds - both with year-end considerations as well as other surety considerations - needed to grow and improve the company's surety support. For more information on bonds - or for help with your clients bonds needs - log in to www.bigmarkets.com or email us at bigimarkets@iiaba.net and an underwriter will contact you.