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7 Types of Financial Reporting and How They Affect Your Surety Bonding





Internally Prepared Financial Statements

Internally Prepared Cash Basis

Internally Prepared Financial Statements on a Cash Basis are financial statements prepared by the contractor, usually on QuickBooks or a similar program, and do not recognize accounts receivable or accounts payable. Instead, they only acknowledge income after the money is deposited in the bank.

Benefits

- Company displays the minimal amount financial reporting

Negatives

- Does not portray a reliable picture of financial strength as it does not include accounts receivable or accounts payable numbers.
- Sureties will usually require additional reports such as an aging of accounts receivable and accounts payable as well as a Work in Process (WIP) as of the date of the financial statement. They may also require bank records to verify cash balances.
- No assurances of the accuracy of the information provided means that the surety will only rely on these for smaller projects.

Internal Cash Basis	
Cost	None
Accuracy	Limited
Reliability	Very Little
Surety Limits	\$800K - \$1,000,000



Internally Prepared Financial Statements

Internally Prepared Accrual Basis

This method of financial reporting is the same as the Internal Cash Basis but will also include Accounts Receivable & Accounts Payable.

Benefits

- Allows the company and the Surety to have a better picture of financial health and allows for larger projects than the cash basis financial statements.
- Will not require as much additional reporting.

Negatives

- No assurances of the accuracy of the information provided means the surety will only rely on these for smaller projects.
- Surety may also ask for bank records and a Work in Process Form as of the report date.

Internal Accrual Basis	
Cost	None
Accuracy	Somewhat
Reliability	Limited
Surety Limits	\$800K - \$1,000,000



CPA Prepared Financial Statements

CPA Prepared Compilation Cash Basis

CPA Prepared Financial Statements include some basic assurances that a qualified professional will be looking over your data and correcting any internal errors on your company's part as well as making required journal entries. However, CPA Financial Statements that are prepared on a Cash Basis have some of the same of the same issues as their internal prepared cousins:

Benefits

- Company displays the minimal amount financial reporting, and it is looked over by a CPA.

Negatives

- Not a reliable picture of financial strength as it does not include accounts receivable or payable numbers.
- Sureties will usually require additional reports such as an ageing of accounts receivable, accounts payable, and a Work in Process (WIP) as of the date of the financial statement. They may also require bank records to verify cash balances.
- Although more desirable than internally prepared reports, this option has few assurances of the accuracy of the information provided which means that the surety will only rely on these for smaller projects.

CPA Prepared Compilation - Cash Basis	
Cost	Minimal
Accuracy	Somewhat
Reliability	Standard
Surety Limits	\$800K - \$1,500,000



CPA Prepared Financial Statements

CPA Prepared Compilation Accrual Basis CPA Prepared

Compilation Accrual Basis financial reports are the most prepared presentation of financial statements usually seen for smaller to medium-smaller contractors. Like the Internally Prepared Accrual Basis financial statement, they will show accounts receivable and accounts payable on the balance sheet representing a more accurate financial picture of the company.

Benefits

- Being Prepared by a CPA, the financial statements are more credible than its internally prepared cousin.
- Establishes a more accurate financial picture for the business owner into its overall financial health.
- It will usually already contain some additional reports that a Surety may ask for such as aging schedules of accounts receivable and accounts payable.

Negatives

- Although the Accrual Basis shows a better picture of financial health, it will not include the income for any unbilled work that the contractor has completed and thus may show reduced working capital and lead to a small surety line of credit.
- Few assurances are given of the accuracy of the data as the CPA is simply taking data from the contractor with minimal verifications.

CPA Prepared Compilation - Accrual Basis	
Cost	Minimal
Accuracy	Somewhat
Reliability	Standard
Surety Limits	\$800,000 - \$1,500,000



CPA Prepared Financial Statements

CPA Prepared Compilation Percentage of Completion Basis

CPA Prepared Compilation Percentage of Completion Basis financial reports is an alternative to a Reviewed Financial Statement (next category). They can be prepared according to GAAP (General Accepted Accounting Principles) by CPAs that have the capability and expertise with contractors and include all of the elements of a financial review; however, the CPA will not have to participate in peer reviews. This may reduce the cost, and some Sureties will extend higher surety credit with this method over an accrual basis financial statement.

Benefits

- Usually less costly than a CPA Review but has many of the same elements.
- More accurate financial reporting for the contractor and Surety regarding the current financial status.

Negatives

- Likely more costly than Accrual Basis Financial Reporting.
- Does not carry the same weight as the Surety for providing higher limits of surety credit.

CPA Prepared Compilation - Percentage of Completion	
Cost	Mid-Priced
Accuracy	Accurate
Reliability	Better
Surety Limits	\$1,000,000 - \$3,000,000



CPA Prepared Financial Statements

CPA Prepared Reviewed Financial Statement

CPA Prepared Reviewed Financial Statements are most common for mid-sized contractors with projects ranging from \$1,000,000 to \$30,000,000. A review quality statement provides a much higher degree of assurance compared to other financial statements, but doesn't carry the same weight as a full audit. A review consists of the CPA making inquiries of management and tests of the financial numbers, which enables the CPA to express a limited assurance that there will be no material changes in the financial statement.

Benefits

- The review should always be prepared on a percentage of completion basis and therefore recognize any underbillings or overbillings on ongoing projects including retainages. This will improve the working capital of the contractor and thus increase the surety bonding line of credit for the contractor.
- The accuracy of this type of financial statement is desirable to move up to the next level and will improve the perceived reliability of your financial data by the Surety.

Negatives

- Cost - This form of financial statement takes considerable time by the CPA and only certain CPA's will agree to perform this level of financial statement because of the peer review requirements. This increases the cost to the contractor.

CPA Prepared Compilation - Percentage of Completion	
Cost	Mid-Priced
Accuracy	Accurate
Reliability	Better
Surety Limits	\$1,000,000 - \$30,000,000



CPA Prepared Financial Statements

CPA Prepared Reviewed Financial Statement

CPA Prepared Reviewed Financial Statements are most common for mid-sized contractors with projects ranging from \$1,000,000 to \$30,000,000. A review quality statement provides a much higher degree of assurance compared to other financial statements, but doesn't carry the same weight as a full audit. A review consists of the CPA making inquiries of management and tests of the financial numbers, which enables the CPA to express a limited assurance that there will be no material changes in the financial statement.

Benefits

- The review should always be prepared on a percentage of completion basis and therefore recognize any underbillings or overbillings on ongoing projects including retainages. This will improve the working capital of the contractor and thus increase the surety bonding line of credit for the contractor.
- The accuracy of this type of financial statement is desirable to move up to the next level and will improve the perceived reliability of your financial data by the Surety.

Negatives

- Cost - This form of financial statement takes considerable time by the CPA and only certain CPA's will agree to perform this level of financial statement because of the peer review requirements. This increases the cost to the contractor.
- CPA's that perform this level of financial statement for contractors are limited and your current CPA may not perform this service and may recommend another CPA for this service.

CPA Prepared Compilation - Percentage of Completion	
Cost	Mid-Priced
Accuracy	Accurate
Reliability	Better
Surety Limits	\$1,000,000 - \$30,000,000



CPA Prepared Financial Statements

CPA Prepared Audited Financial Statement

The CPA Audit provides the highest degree of financial assurance as the CPA applies extensive tests and analytical procedures to the numbers and management. This will include written verification of many of the numbers used in the financial statements through the CPA contacting suppliers, clients, and banks. This is the financial presentation that should be considered for any contractor that may go over the \$20,000,000 single project threshold during the next 12 months. The audit is not designed to catch any financial improprieties by employees, but it could undercover discrepancies that may lead to further investigation.

Benefits

- The high degree of certainty of the audit will give your surety partner the best assurance that your financial data is accurate and allow them to extend the maximum surety credit to your company.
- Like the CPA Review, this will include the percentage of completion and the recognition of income on your ongoing projects.

Negatives

- This is the most expensive type of financial reporting.
- Few CPA's will perform audits and those who may not have the time for it.
- The audit will take the most amount of your time versus any other type of financial reporting.
- The auditors may make recommendations that you will usually be required to follow.

CPA Prepared Audit	
Cost	Most Expensive
Accuracy	Most Accurate
Reliability	Highest
Surety Limits	\$20,000,000+



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About Professional Insurors

Professional Insurors has a distinct and rich history that starts in 1977. Over the course of 45 years, our philosophy continues to remain the same: concentrate on specialized areas and bring excellent service and products to our clients. Our employees are our most important asset, and we have an employee first culture where they have a career path and look to future opportunities and personal growth.



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