



WHY IS IT IMPORTANT TO PROVIDE THE SURETY WITH A CERTIFIED FINANCIAL REPORT?



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Financial Statements are critical to a contractor's bonding program. The financial statements should be prepared in conformity with Generally Accepted Accounting Principles (GAAP) using the percentage-of-completion method and include all the necessary job schedules and cost information.

There are three types of financial statements:

- **Compilation** (lowest level of financial assurance and least expensive)—Compiling the contractor's internally prepared financial statements. The CPA makes no assurance or inquiries; therefore, sureties cannot rely on this for large surety decisions.
- **Review** (costs significantly more than a compilation)—Generally, the most common minimum surety requirement. A review is conducted to provide limited assurance that there are no material modifications necessary to the financial statements through certain analytical procedures of financial data and making inquiries of management.
- **Audit (Certified Audit)** (highest level of financial assurance and most expensive)—Most common for contractors who perform large, single jobs with large backlog. The CPA performs extensive tests and analytical procedures to the financial data—including third-party verification.

Audited financial statements are the most highly recommended because they offer the highest level of financial assurance. There are also the added benefits of a potential return on investment, the strengthening of the relationship between you and your surety—by showing your company's commitment to the surety process—increased bonding capacity and lower rates.

Always work with a construction CPA firm that is known to the surety community, as they are experts in presenting your financial information, which helps to facilitate the surety's evaluation.