

## Users of Your Financials: What They're Looking At

**Executive Summary:** Some parties may require their own review of your financial reports before doing business with you. The two documents of interest to these parties are the income statement and the balance sheet. The major items they're looking at are briefly discussed here and a presentation made by a construction executive is provided.

**What users?** Users that may insist upon seeing your financials before doing business with you include banks, sureties, general contractors (if you're a subcontractor), suppliers, and even licensing boards.

**What are they looking at?** Each of them has the same overall goal, and that is to gain an understanding of your financial health and insure they'll be paid back. It really boils down to two items:



1. Can you pay your immediate bills?
2. In the case of business failure, can you be liquidated to eventually pay your bills?

**How is the evaluation performed?** Well, first you must understand that each of the parties above is extending you credit in one form or another. Because if you fail the "lending" partner (a bank lending you money, a surety insuring your project success, a supplier handing you goods based on your promise to pay), they must step in and pick up where you failed them. And usually the reparation the party must make is financial.

Your financial health is graded qualitatively upon your character, the controls in place at your business, and the choice you make in clients. Quantitatively, there exist certain metrics including:

- **Working Capital** (the difference between Current Assets and Current Liabilities on your balance sheet)
- **Current Ratio** (the resulting number when Current Assets is divided by Current Liabilities)
- **Net Worth** (the difference between Assets and Liabilities on the balance sheet)
- **Debt to Equity Ratio** (the ratio resulting from total Debt divided by Equity)



These metrics are common in the construction industry, and of course users of your reports determine the value of these numbers in different ways. A great presentation for contractors with numerical examples is here (QR).



**My story.** As a business owner, each day I was faced with a different challenge. In good times and bad with my company, I had to figuratively drop my pants on a regular basis and share what I deemed confidential information.

Showing your financials feels like walking to the front of your 7<sup>th</sup> grade math class and showing your wee-wee; it's invasive and something you want over as soon



as possible. Frankly, it just feels like none of their business. The truth of the matter is that it's just business.