

Your contract defines its own accounting. These are the statements it asks for.

The Bayshore Parks Authority agreement does not ask for GAAP. Section 9.3 counts revenue when the Authority approves an invoice, and Exhibit C reimburses only allowable costs. That is a special purpose framework, and statements prepared on it are a different document from the ones your bank reads — not a worse one, and not an adjusted one. Both columns below are right. They answer different questions.

ILLUSTRATIVE SAMPLE · NOT A CLIENT FILE

U.S. GAAP · NET INCOME

\$531,400

Revenue when earned, every cost the business actually paid. This is the column a lender, a surety and a buyer read.

CONTRACTUAL BASIS · EXCESS OF REVENUES

\$597,400

Revenue when approved, allowable costs only. This is the column the Authority reads, and the only one the agreement obliges you to file.

EXHIBIT C — COSTS THE AGREEMENT DOES NOT REIMBURSE

What comes out, and why

	AMOUNT
Owner compensation above the Exhibit C cap The cap is a contract term, not an opinion about the salary.	86,000
Marketing and business development Exhibit C excludes the cost of winning other work.	41,200
Interest on equipment notes Financing cost is not an allowable cost under this agreement.	23,400
Entertainment Excluded outright, regardless of business purpose.	7,800
Charitable contributions Excluded outright.	5,000
Total costs excluded from the contractual basis	163,400

THE BRIDGE

From one number to the other

	AMOUNT
Net income — accounting principles generally accepted in the U.S.	531,400

Less revenue earned but not invoiced and approved at year end	(268,900)
Work performed. The Authority has not approved it, so the contract basis does not count it yet.	
Add prior-year unbilled revenue approved during this year	171,500
Last year's held-back work, approved and counted now.	
Add costs the agreement does not allow	163,400
Real costs the business paid. They do not reduce the contract result because the contract never promised to share them.	
Excess of revenues over allowable costs — contractual basis	597,400

TIES — the Authority's approval register and the books both say \$4,765,000 was approved, against \$4,167,600 of allowable cost.

THE PART THAT COSTS MONEY

- One set of statements, sent to both readers, is the mistake — and it goes wrong in both directions.
- Send the Authority your GAAP statements and you have claimed \$163,400 of costs the agreement never agreed to share. That is not a presentation difference. It is a finding, and the money comes back.
- Send the bank the contract statements and you have hidden \$268,900 of work your crews already performed, because the Authority has not signed off yet. The lender prices you as a smaller company than you are.
- The spread between the two columns is \$66,000 this year. Neither number is wrong. Sending the wrong one is.

What a statement on this basis has to say about itself. A special purpose framework is not GAAP, and the statements must say so: a note describing the basis, how it differs from GAAP, and that it is not intended for anyone outside the contract. We draft that note from your agreement — not from a template — because the basis is whatever Section 9.3 and Exhibit C actually say.

Who signs which engagement, and it is not one firm. A compilation on the income-tax basis is prepared and signed by Palacio, Palacio & Zimmerman, LLC — the same firm that does your returns. Everything above that line goes to PPZ Assurance & Advisory LLC, a separate firm: a compilation that carries full notes, as this one does, and every review and every audit. This engagement is a compilation on a contractual basis with a basis-of-accounting note, so it is signed by the assurance firm.

Every figure on this page is illustrative and the agreement is invented. A real engagement starts by reading your contract, because no two of them define allowable cost the same way.

PPZ Assurance & Advisory LLC · Compilation — contractual basis of accounting