

4.

REPORTING

4.1 Reporting Principles and Requirements

4.1.7 GAAP versus Cash Basis Reporting

4.1.7.10 Approximately 20 percent of local governments – the largest and most complex in the state – report financial information in accordance with generally accepted accounting principles (GAAP). All other local governments report on a cash basis as prescribed in the *Budgeting, Accounting, and Reporting System* (BARS) Manuals.

4.1.7.20 Under authority of RCW [43.09.200](#), the Washington State Auditor’s Office allows local governments the option to report on either a GAAP or cash basis. However, while the State Auditor’s Office does not require reporting on a GAAP basis, it may be a requirement of federal grants, bonds, contracts, or other oversight agencies.

4.1.7.30 As discussed in the BARS Manuals, the design of a government’s accounting system and controls for financial reporting is a management decision – including the selection of the basis of reporting. Adequate accountability, oversight and control can be achieved whether reporting on a cash or GAAP basis.

4.1.7.40 The most appropriate basis of reporting for a particular government is a matter of judgment based on the needs, activity and resources of that government. Each method has advantages and disadvantages. We recommend that governments carefully consider the costs versus benefits. To assist governments in this decision, a summary of common benefits and drawbacks of different reporting options is provided below.

4.1.7.50 **GAAP Basis Reporting**

Advantages	Disadvantages
• Financial reports that are more comprehensive, sophisticated and potentially informative • Improved ability to evaluate government’s financial position and changes in its net position • Consistent with nationally recognized financial reporting standards • More familiar to external users • May be required by grantors or oversight agencies	• May be more difficult to understand and use for managers or governing bodies who are unfamiliar with accrual concepts and terminology • Requires more qualified staff, a more complex accounting system, and more time devoted to preparation and controls over financial reporting • More costly financial reporting • May need to reconcile between multiple basis of accounting for financial reporting and operational purposes

4.1.7.60 Cash Basis Reporting

Advantages	Disadvantages
• Financial reports that are more simple and easier to understand and use • Clear presentation of cash flows and available cash • Financial reporting that is aligned with budgets • Financial reporting may be less costly • Less training required for staff	• Statements are focused on short-term rather than long-term financial position • Less information on non-cash assets, including infrastructure, and changes in these assets • Less information on liabilities and changes in liabilities • May not be as familiar to external user

4.1.7.70 Governments should evaluate these general benefits and costs in relation to their specific situation, including their personnel, software systems, organizational structure and activities. Other factors that may be specifically considered include:

- Accounting and reporting basis used by the government's fiscal agent or by entities for which the government acts as the fiscal agent;
- Accounting and reporting basis used by other entities with which the government engages in joint ventures or service contracts;
- Familiarity of management and the governing body with a particular basis of reporting;
- Importance and amount of the government's non-cash assets;
- Importance and amount of the government's liabilities not reported on Schedule 09;
- Whether there is uncertainty about future reporting needs, as it is easier to convert from GAAP to cash basis than the other way;
- Needs and expectations of external users of the government's financial statements.