

On Thu, May 4, 2023 at 9:37 AM Savannah Halter <[savannah@oregoncpas.com](mailto:savannah@oregoncpas.com)> wrote:  
Good morning,

We hope this email finds you well!

Please take a few minutes to review this email. We apologize in advance for the length, but this is an important topic.

As we are preparing for the coming Fiscal Year end and 22/23 Audit Season, we're writing to make sure you are fully aware of the implications and complexities surrounding recent releases of new Standards from the Governmental Accounting Standard Board, particularly GASB 87 and GASB 96.

At a high level, GASB 87 addresses the treatment of Leases, while GASB 96 follows up with additional guidance on SBITA's (subscription-based information technology arrangements). For reference, please find the below links:

[GASB 87](#)

[GASB 96](#)

Your Government utilizes the Modified Accrual Basis of Accounting for budgetary and fund financial reporting and the full accrual basis of accounting for the government-wide reports, both of which you are required to be in compliance with GAAP – generally accepted accounting principles. Our audit requires that we attest to your GAAP compliance, among many other things.

The new GASB standards add requirements and methodologies for accruing leases and SBITAs - capitalizing these arrangements, recording related liabilities, and amortizing/depreciating the values over the lives of the arrangements. Compliance with the two GASBs may require significantly more work by you and, ultimately, by us as auditors, depending on the various leases and SBITAs your government has agreed to.

In order to assist with this process, we've recently engaged with a company you may have heard from yourself: Debtbook. They seem to have developed a nice set of tools and processes to help entities like yours keep these activities organized for financial reporting. Unfortunately, this tool comes with additional costs, staff time requirements, and an upfront setup process. This potential cost would be added to internal costs, particularly staff time necessary to maintain the records. The tool seems to be very well thought through and likely a significant help in addressing these needs. It appears it would reduce staff time, create better reports for your auditors, but does come with its own cost. To be clear, using Debtbook is by no means required.

Adding to the costs related to these GASBs, is the additional cost of auditing. As we become more fully aware of the additional work required to audit this new information, we will need to revisit the amount of time required to perform the audit and determine the potential increase in our fees. We estimate this additional work may require approximately as little as \$2,000 up to potentially \$10,000 annually of additional fees, depending on how many leases and SBITAs your government has, and on whether or not you utilize a tool like Debtbook to assist in the collection and organization of the data, which should reduce our audit time substantially.

As you consider this information, we want you to know we are not ignorant to the challenge these unplanned financial impacts may have on your entity.

**Therefore, we feel it is important to offer an alternative to the entire situation: conversion to Modified Cash Basis, for all the various financial reports.**

Using the Modified Cash basis still ensures full compliance in every respect except one - we would not be able to issue our auditor's report indicating that your government is in compliance with GAAP. But rather, our report adds the following paragraph:

*We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.*

In other words, the report is still considered a "clean" report.

Many local governments in the State of Oregon utilize Modified Cash Basis of accounting. It is fully accepted for financial reporting by the Secretary of State, Oregon Department of Revenue, other State agencies such as Oregon Department of Education, and the federal Single Audit Clearinghouse. It is just not considered GAAP.

**To be clear, we ARE recommending** the conversion to modified cash for your government's financial reports, but by no means insisting on it.

Please let us know if you have any questions and review the Frequently Asked Questions below. We would enjoy the opportunity to discuss with you.

Some Frequently Asked Questions:

- **How is Modified Cash Basis different from Cash Basis?**
  - o This is an important distinction.
    - § In true Cash Basis, the only asset is Cash. Modified Cash can include in the financial statements other assets and liabilities...modifying the recognition of assets as preferred. While much simpler, the Cash Basis of accounting is so limited in what is reported, most entities prefer modified cash basis.
    - § In a Modified Cash Basis, we include certain longer-term elements in our reporting and analysis. This includes Fixed assets, certain Long Term Debts, etc. These items are important to be included as they help tell the broader story of the District's overall financial position.
  - o The link below describes in great detail using modified cash as a basis for accounting. We do not expect you to understand the information in this guide but offer reference to it in case you are interested in learning more. <https://us.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/downloadabledocuments/frameworks-in-state-and-local-governmental-financial-statements.pdf>
- **Is converting to a Modified Cash Basis of Accounting difficult?**
  - o Fortunately, converting to Modified Cash Basis is relatively easy and straightforward. Typically, other than perhaps how you currently manage accounts payable, it is likely you are already operating on a day to day basis in a manner consistent with Modified Cash Basis accounting. If you choose to move forward, it can be implemented almost immediately.

- **June 30<sup>th</sup> is approximately 60 days away, can I even make it happen between now and then if I wanted to?**
  - o Yes, per the note above, you can convert almost instantaneously – and therefore the year end work of accruals and other adjustments will be less complex and our audit will be able to take into account the new basis of accounting.  
If your budget has been developed using modified accrual basis, it is necessary to include a brief disclosure that the government is converting to modified basis, and add a brief explanation as to why. We can provide a paragraph as a template for you to use in that disclosure if you need it. Most budgets we see are not specific to the basis of accounting used to prepare it, and there would typically be no differences in the preparation of the modified cash basis budget.
- **We have loans, bonds, and other debts. Will my lenders care about this?**
  - o You need to refer to your covenants and contact your lender(s) to be sure.
    - In most cases, the most that is required is the simple filing of a notice that you are converting your basis of accounting. Many lenders require the ongoing reporting of debts and other non-cash items in the annual report, which we agree with and our suggestion aligns with.
    - If you are considering plans that include significant borrowing, you should consult with bond and legal counsel about the potential impact on interest rates if the financial statements are not prepared using GAAP. We know of no negative consequences in that regard, but believe it prudent to inquire before making the decision to convert to modified cash if large debt issuances are likely to be a part of the government's financial future.

Please share with others who may be interested.

I hope you have a wonderful day!

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