

University of Mississippi

eGrove

---

Newsletters

American Institute of Certified Public  
Accountants (AICPA) Historical Collection

---

11-2003

## Members in Government, November 2003

American Institute of Certified Public Accountants (AICPA)

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_news](https://egrove.olemiss.edu/aicpa_news)



Part of the [Accounting Commons](#)

---

### Recommended Citation

American Institute of Certified Public Accountants (AICPA), "Members in Government, November 2003" (2003). *Newsletters*. 2093.

[https://egrove.olemiss.edu/aicpa\\_news/2093](https://egrove.olemiss.edu/aicpa_news/2093)

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Newsletters by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

# Members in Government

November 2003

AICPA

## The Challenges of OCBOA Financial Statements

By Michael A. Crawford, CPA



### Highlights

E2

Recent GASB Publications

E3

GASB Proposes Reporting More Comprehensive Information

E3

AAPC of FASAB Issues Two Exposure Drafts

E3

CFOs Expect Slight Increase in Fourth-Quarter Hiring

E4

OMB Reports to Congress on Progress in Regulatory Reforms

E4

OMB Proposed Changes to A-133 Collection Forms

How often have you tried to find guidance on preparing and auditing governmental financial statements prepared on the cash basis, modified cash basis or regulatory basis of accounting (also known as other comprehensive bases of accounting or OCBOA) only to find that little authoritative or practical guidance exists?

With the issuance of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, questions regarding its applicability to OCBOA financial statements have surfaced. Those frequently asked include:

- Do the financial reporting requirements of GASB Statement No. 34 apply to financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles?
- How should capital assets and long-term debt be reported in OCBOA financial statements, especially in light of the new government-wide reporting requirements of Statement No. 34?
- What note disclosures are required or appropriate in OCBOA financial statements?
- What constitutes a modified cash basis of accounting and how does it differ from the cash basis?
- Do the financial reporting requirements of Statement No. 34 apply to regulatory basis financial statements?
- How should an auditor address materiality determinations and report in an audit of OCBOA financial statements?

An AICPA practice aid, *Applying OCBOA in State and Local Governmental Financial Statements*, addresses those ques-

tions and provides practical guidance for preparers and auditors.

The practice aid defines a basis of accounting as generally involving three elements of accounting and financial reporting:

*Basis of measurement.* Criteria for how transactions are recorded, such as the accounting treatment for the acquisition and use of capital assets.

*Basis of recognition.* Criteria for when transactions are recognized, such as when the cash is received or paid.

*Basis of disclosure.* Criteria for what the financial statements should include and disclose, such as a management's discussion and analysis, government-wide financial statements, fund financial statements and applicable note disclosures.

It is in the context of those three criteria and through using the existing professional guidance in Statement on Auditing Standards No. 62, *Special Reports*, as amended, and related interpretations that the practice aid defines and provides examples of the other comprehensive bases of accounting most commonly used by many small state and local government entities: the cash basis, the modified cash basis and the regulatory basis.

Why is the use of OCBOA so prevalent in state and local governmental entities? OCBOA accounting and financial statement alternatives, if properly applied, may offer some additional benefits to certain government financial statement preparers and users, including:

- OCBOA accounting records are easier to understand and maintain than those prepared on a GAAP basis.
- OCBOA financial statements are easier to prepare than GAAP financial statements.

*continued on page E2*

continued from page E1—OCBOA

- OCBOA accounting and financial reporting may be less costly than GAAP reporting.
- OCBOA financial statements may be more understandable and usable by some government officials that have limited understanding of GAAP.
- Regulatory basis financial statements may better meet the specific needs of certain regulatory or oversight agencies.

However, a word of caution should be noted. Although the use of an other comprehensive basis of accounting may offer some benefits to certain governmental entities compared to the use of GAAP, OCBOA accounting and financial reporting also has its limitations, including:

- OCBOA financial statements do not provide a comprehensive measure of the government's true economic-based financial condition and changes therein.
- OCBOA financial statements may not meet the needs of certain users such as investors, creditors and the credit rating agencies.
- Government officials could rely unduly on OCBOA financial information to make certain management or policy decisions.
- OCBOA financial condition and results can be easily manipulated by dictating the timing of cash receipts and disbursements.

The practice aid indicates that generally, if a government's financial statements are intended to present a complete set of financial statements, the financial reporting requirements of Statement No. 34 (including a management discussion and analysis, government-wide statements, fund statements, notes and required supplemental information) should be followed in cash basis and regulatory basis presentations. The applicability of the Statement No. 34 requirements to regulatory basis statements will depend on the specific requirements as outlined in the applicable laws or regulations.

The practice aid also addresses the capital asset and long-term debt issues involving OCBOA statements. It indicates that in a complete set of financial statements on the cash basis of accounting, capital assets and long-term debt balances should not be included in the statement of financial position because the cash basis presentation is limited to reporting cash and cash equivalents and changes therein resulting from cash receipt and disbursement transactions. In such a cash basis presentation, in both the government-wide and fund financial statements, the use of cash to acquire capital assets or pay long-term debt principal and interest should be reported as cash disbursements, and the receipt of cash from debt

proceeds and disposals of capital assets should be reported as cash receipts. The statements of net assets and balance sheets would not report capital assets or long-term debt.

In a complete set of financial statements on the modified cash basis of accounting, capital assets and long-term debt arising from cash transactions may be reported if the cash basis of accounting is modified for such GAAP treatment of these accounts. The reporting of capital assets and related depreciation, where applicable, and the reporting of long-term debt are both modifications to the cash basis of accounting having substantial support. However, a modified cash basis of accounting may result from modifications to the cash basis that do not involve the reporting of capital assets and long-term debt arising from cash transactions. In this case, capital asset and long-term debt transactions should be reported as described in the cash basis discussion above.

In the opinion of the practice aid author, the modifications to report capital assets and long-term debt arising from cash transactions are always important modifications to consider due to the significance of those account balances to most state and local governments. Although not a required modification, the usefulness of the modified cash basis government-wide financial statements and proprietary fund financial statements is enhanced through the reporting of capital assets and long-term debt.

Finally, in financial statements using a regulatory basis of accounting, the specific regulations or contractual provisions will dictate the accounting treatment for capital assets and long-term debt.

The practice aid (No. 006614CPA11), with its analysis, practical guidance and example OCBOA financial statements, is a useful tool to both preparers and auditors of state and local governmental financial statements. The price is \$59 for members and \$73.75 for non-members. To order:



888/777-7077



[www.cpa2biz.com/store](http://www.cpa2biz.com/store)

*Michael A. Crawford, CPA, is chairman of Crawford & Associates, P.C. in Oklahoma City, and the author of Applying OCBOA in State and Local Governmental Financial Statements. He is an author of AICPA publications and practice aids and a member of the Governmental Accounting Standards Advisory Council.*

## Recent GASB Publications

The Governmental Accounting Standards Board has recently released these publications:

- *Reporting Performance Information: Suggested Criteria for Effective Communication.* This special report presents a set of suggested criteria for use in developing external reports on performance information and is the result of the fourth of six phases in a GASB

research project on service efforts and accomplishments (SEA) reporting.

The SEA research project is intended to encourage experimentation with external reporting of performance information, to provide nonauthoritative guidance for the communication of performance information and to assess how successful the guidance has been in assisting state and local government organizations to effectively communicate the results of their operations. To

obtain a free printed copy of the special report, call the GASB order department and ask for product code GRPI.

- *Guide to Implementation of GASB Statement No. 40 on Deposit and Investment Risk Disclosures: Questions and Answers* (product code GQA40). The cost of the publication is \$29.



800/748-0659



[www.gasb.org](http://www.gasb.org)

## GASB Proposes Reporting More Comprehensive Information

The Governmental Accounting Standards Board has issued an exposure draft of proposed standards that would enhance and update the supporting information that governments present with their annual financial statements. The proposal, *Economic Condition Reporting: The Statistical Section*, would revise the statistical section that accompanies a state or local government's basic financial statements to include more comprehensive government-wide financial information.

The statistical section comprises schedules presenting trend information about revenues and expenses, outstanding debt, economics and demographics and



other subjects. These schedules are intended to provide financial statement users with contextual information to better assess a government's financial health.

The statistical section would be updated to reflect the significant changes that have taken place in government finance. For instance, governments would report the broad array of debt they now issue in addition to general obligation bonds. The proposal also would replace the current standards, which are oriented toward general-purpose local governments, with clearer guidelines that can be implemented by any type of governmental entity.

Although the statistical section is a required part of a comprehensive annual financial report (CAFR), state and local

governments are not required to prepare a statistical section if they present their basic financial statements in a report other than a CAFR. These circumstances would not be changed by the proposed standard. The proposal would, however, govern any statistical section accompanying a government's basic financial statements, whether presented in a CAFR or not.

The proposed standards would become effective for periods beginning after June 15, 2005. A list of the schedules that would be required to be included in a statistical section, as well as the disposition of the currently required information, is available at the GASB Web site. The comment deadline is Nov. 28. The ED may be obtained from the GASB Order Department.



800/748-0659



[www.gasb.org](http://www.gasb.org)



## AAPC of FASAB Issues Two Exposure Drafts

The Accounting and Auditing Policy Committee of the Federal Accounting Standards Advisory Board issued two exposure drafts of proposed federal financial accounting and auditing technical releases related to direct loan and loan guarantee accounting and auditing.

- One ED, *Auditing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act (Amendments to Technical Release 3: Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act)*, would preserve, with minor technical changes, the existing audit guidance in Technical Release 3.
- The companion ED, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act (Amendments to Technical Release 3: Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act)*, would replace the earlier guidance found in Technical Release 3 with more current guidance (Technical Release 6).

The purpose of first ED, proposed Technical Release 3, is to amend the guidance for auditors to audit credit subsidy estimates provided in the original technical release (July 1999). The most significant changes made in this amended TR 3 are:

- The removal of the preparation guidance from this amended TR to include only the audit guidance.
- Procedural changes updating the document to reflect new guidance and changes in terminology in the area of credit reform.

The purpose of the proposed second ED, Technical Release 6, is to amend the implementation guidance for agencies to prepare and report credit subsidy estimates provided in the original technical release (July 1999). The most significant changes made between the original TR3 and this amended TR are:

- The removal of the audit guidance from this amended TR to

include only the preparation guidance.

- Clarification of OMB's role in the credit subsidy estimation and re-estimation process.
- The stipulation that credit subsidy re-estimates may now include six months of actual data and six months of projected estimates.

An electronic version of the exposure draft is available at:



[www.fasab.gov/exposure.htm](http://www.fasab.gov/exposure.htm)

Printed copies can be obtained from the FASAB.



202/512-7350

## CFOs Expect Slight Increase in Fourth-Quarter Hiring

The hiring of accounting and finance professionals is expected to increase modestly in the fourth quarter of 2003, according to the Robert Half International Financial Hiring Index. Eight percent of chief financial officers surveyed plan to add staff in the fourth quarter, and 7% anticipate reductions in personnel. The net 1% hiring increase is up one percentage point from the third-quarter forecast. The majority of respondents, 81%, anticipate no change in hiring, and 4% were undecided.

The national poll includes responses from 1,400 CFOs from a stratified random sample of U.S. companies with 20 or more employees. It was conducted by an independent research firm and developed by Robert Half International, Inc.

"The overall hiring environment remains conservative as executives wait for evidence of a sustained economic recovery," said Max Messmer, chairman and CEO of Robert Half International. "Businesses are adding staff gradually, as productivity demands increase." Among CFOs who said they plan to hire accounting and finance professionals before the end of the year, 30% cited an increase in business as the primary factor driving the demand.

## OMB Reports to Congress on Progress in Regulatory Reforms

As required by law, the Office of Management and Budget released its *Final 2003 Report to Congress on the Costs and Benefits of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities*. The report updates the administration's progress on improving regulation, including a summary of agency decisions on 316 specific regulatory reform proposals submitted by the public as part of the 2002 report.

"As the president has said, government has a responsibility to ensure that its regulatory actions are reasonable and affordable. Too often, government regulations and compliance burdens discourage, rather than promote, job creation. The administration will continue to work to simplify and streamline regulations, along with ensuring that well-intentioned compliance requirements do not have the unintended effect of killing jobs," said Dr. John Graham, Administrator for the Office of Information and Regulatory Affairs at OMB.

The 316 reform proposals covered regulations, guidance documents and paperwork burdens, with an emphasis on those affecting the small business sector. Agencies determined that:

- 109 of the nominations are currently under review or had already been addressed by agencies.
- 51 of the nominations were referred to independent agencies.
- 156 of the nominations warranted further consideration by agencies.

Of these 156 nominations, agencies have decided to pursue 45, not to pursue 81 at this time and to further analyze 30. The agency decisions reflect a merit-based evaluation based on the criteria of efficiency, fairness and practicality. OMB continues to work with agencies to make sure that each of the nominations receives careful consideration as to whether agency actions are required.



### Guidance Included

The report includes OMB's final regulatory analysis guidance, contained in an OMB Circular. The new guidance takes effect on Jan. 1, 2004, for proposed rules and Jan. 1, 2005, for final rules. It applies primarily to the major federal rules issued each year that have an economic impact of \$100 million per year or more. The guidance strengthens the role of science, engineering and economics in rulemaking. The goal is a more competent and credible regulatory process and a more consistent regulatory environment, which is good for consumers and businesses, according to the report.

OMB's circular on regulatory analysis makes the following refinements to existing agency practices:

- More emphasis on cost-effectiveness analysis as well as benefit-cost analysis.
- More systematic evaluation of benefit and cost factors that cannot be quantified or expressed in dollar units (for example, impacts on privacy and the natural environment).
- Improved public access to regulatory analysis documents (via agency Web sites).
- Greater use of formal probability analysis for important rule-makings where the underlying science is uncertain.

In addition to the information on regulatory reform, the report contains a "regulatory accounting" statement covering the last 10 years of major regulatory actions, estimating that these major regulations provided quantified benefits of \$146 billion to \$230 billion annually, and quantified costs of between \$36 billion and \$42 billion annually.

The report also contains a chapter on homeland security regulation, as well as a chapter on the role of precaution in agency risk assessment and risk management. The report also describes major federal regulatory actions affecting state, local and tribal entities from Oct. 1, 2001, to Sept. 30, 2002.

The 2003 report can be accessed from:

 [www.whitehouse.gov/omb/inforeg/regpol-reports\\_congress.html](http://www.whitehouse.gov/omb/inforeg/regpol-reports_congress.html)

## OMB Proposed Changes to A-133 Collection Forms

The Office of Management and Budget has issued for comment a proposed renewal and changes to two information collection requests:

- The reports of auditors to auditees concerning audit results, audit findings and questioned costs.
- Reports from auditees to the federal government providing information about the auditees, the awards they administer and the audit results. These collection efforts are required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of*


*States, Local Governments, and Non-Profit Organizations.*

Included as part of this information collection is the Data Collection Form (SF-SAC). The changes being proposed are to modify the data elements collected on the SF-SAC. The current Form SF-SAC is being used for audit periods ending in 2001, 2002 and 2003. A revised Form SF-SAC will be used for audit periods ending in 2004, 2005 and 2006.


Comments were due on or before Oct. 14, but late comments were to be considered to the extent practicable. Respondents are asked to submit comments electronically.

The proposed revisions to Form SF-SAC can be obtained by contacting the Office of Federal Financial Management

or by download from the OMB Grants Management home page:

 202/395-3812

 [tramsey@omb.eop.gov](mailto:tramsey@omb.eop.gov)

 [www.whitehouse.gov/OMB/grants/grants\\_docs.html](http://www.whitehouse.gov/OMB/grants/grants_docs.html)