

Cash vs. GAAP Reporting Panel

Panel Speakers:

Tammy Fine, Port of Kennewick

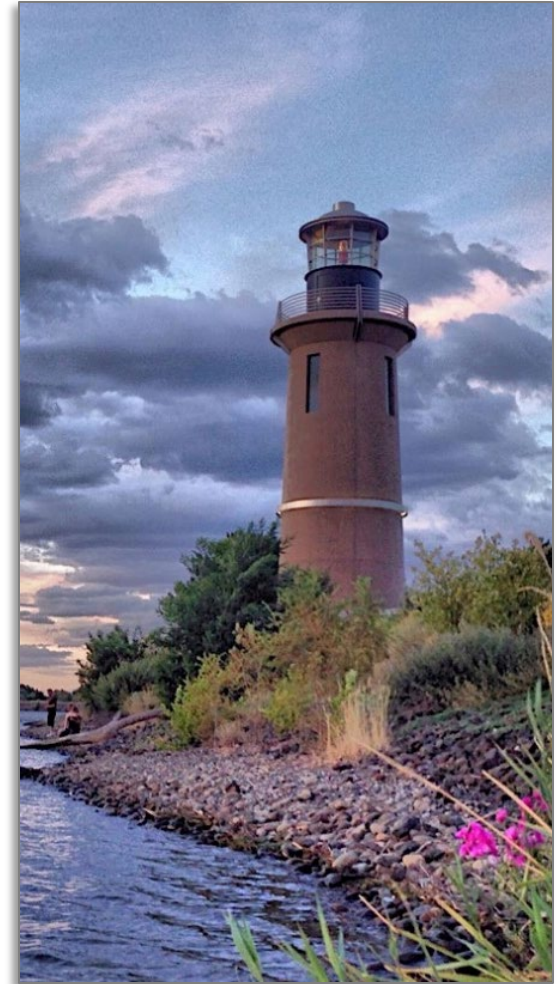
Rudy Caluza, Port of Seattle

Kim Noah, Port of Camas-Washougal



HISTORY

- 2008 State Auditor's Office allowed Governments under \$100m to depart from GAAP by allowing the use of cash basis of reporting.
 - GASB and AICPA have implemented unnecessary, costly and excessive financial reporting and audit burden on governments.
 - Private firms are exposed to far more risk and uncertainties than government sector.
 - Majority of failures and fraudulent reporting has occurred in private companies.
 - Public companies have far greater pressures and motivation to misstate financials.



Washington State Governments GAAP vs Cash

- **1,901** Washington government agencies
 - 23% GAAP reporting (438 agencies)
 - 77% Cash reporting (1,463 agencies)
- **209** Cities
 - 29% GAAP reporting (61 cities)
 - 71% Cash reporting (148 cities)
- **60** Ports
 - 42% GAAP reporting (25 ports)
 - 58% Cash reporting (35 ports)

Port of Camas-Washougal

- 55,000 Constituents located in the communities of Camas and Washougal located in Clark County, WA.
- 18 Employees (9 administration office and 9 maintenance)
- \$2.485M Annual Levy Certification
- \$3.6M 2018 Budgeted Operating Revenue
- Operations:
 - Industrial Park – 300 acres, 17 buildings (322,000 total sq ft)
 - Marina - 350 covered slips
 - Airport – 79 hangars
 - Waterfront Development 40 acres
 - Parks & Trails – 4 miles of trails and 4 acres of parks

POCW History Financial Reporting

- **Before 2012:** GAAP reporting
- **2012-2013:** GAAP reporting internally, Cash reporting to SAO
- **2013-Current:** Cash reporting internally except AR, Cash reporting to SAO

POCW History Financial Reporting

- Continue to maintain fixed assets and depreciation schedule.
- Continue to perform Accrual Accounts Receivable during year and then convert to cash at end of year.
- Continue to report liabilities as required on Schedule 9
- Highly transparent to public on port financials reported on port website www.portcw.com

Common Questions

- Can you apply for federal or state grants if you are cash basis?

Yes, POCW has received \$6.5M in state grants and \$2.875M in federal grants since cash basis reporting

State Granting Agencies:

- Dept. of Ecology
- Dept. of Commerce: Community Economic Revitalization Board
- Recreation & Conservation Office
- Secretary of State: Records Digitization

Federal Granting Agencies:

- Dept. of Commerce: Economic Development Administration Office

Common Questions

- Can you receive GO bonds or Revenue bonds if you are cash basis?

Yes, POCW has received \$11,125,000 in General Obligation Bonds and \$4,575,000 in Revenue Bonds since cash basis reporting.

- Is your bond rating affected by reporting on a cash basis?

No, our ratings have improved while being on cash basis reporting:

GO Bonds – Aa2 Moodys & AA- S&P

Revenue Bonds – A3 Moodys

Main Reasons for Cash Reporting

- GASB's
- Focus more time on the Mission of the Port of Camas-Washougal
- Allocate more time to Grant Applications
- Analyze Financials more on a monthly basis
 - Where can Operating Expenditures be reduced (utilities, payroll, etc)
 - Where can Operating Revenues be increased or diversified.
- Asset Management
 - Maintain assets on a more proactive vs. reactive basis
 - Reduce capital expenditures with improved maintenance schedules
- Allocate more time to Investments



ACCRUAL VERSUS CASH BASIS

Presented By Tammy Fine, CPA, CFE



Port of Kennewick

ACCRUAL vs CASH

1. Departure from GAAP History
2. Port of Kennewick's departure then return
3. Look at Accrual versus Cash Financials
4. Accrual versus Cash Transactions
5. Pro's & Con's



Port of Kennewick's Departure from GAAP then return!



" IT LOOKS LIKE THEY'RE BRINGING IN THE NEW REGULATIONS MANUAL. "

Port of Kennewick

BYE-BYE GASB!

- ❑ GASB Pronouncements issued 1984 to 2000 (1-36)
 - 36 pronouncements issued in 17 years

- ❑ GASB Pronouncements issued after 2000 (37-88)
 - 52 pronouncements issued in 18 years (8 issued in 2015 alone)!

Tipping point - GASB 45 and 68!



Port of Kennewick

WELCOME BACK GASB!

ADVERSE OPINION

- AICPA issues a new audit standard in 2012 that required auditors to express adverse opinions starting in 2013 on OCBOA financials due to the material departure from GAAP.
- An adverse opinion means the auditor deemed the financial statements DO NOT fairly represent the entities financial activities OR did not comply with GAAP.



Port of Kennewick's CASH BASIS AUDIT OPINION (Prior to 2013)

Note 1 to the financial statements: the Port prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS) manual prescribed by the State Auditor*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Auditor Opinion: In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Port, for the year ended December 31, 2009, on the basis of accounting described in Note 1.



AUDITOR'S OPINION CASH BASIS ACCOUNTING (NOW)

We issued an unmodified opinion on the fair presentation of the Port's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Port using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.



AUDITOR'S OPINION CASH BASIS ACCOUNTING (NOW)

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Port used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.



AUDITOR'S OPINION CASH BASIS ACCOUNTING (NOW)

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Port of Camas-Washougal, as of December 31, 2016, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.



THE MORTUARY
FUNERAL DIRECTOR



Roy Nixon

"I USED TO BE AN ACCOUNTANT BUT I FOUND IT TOO DEPRESSING."

ACCRUAL vs CASH FINANCIALS

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ACCRUAL vs CASH FINANCIALS

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ACCRUAL vs CASH FINANCIALS

8 notes vs 51 notes

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ACCRUAL vs CASH DIFFERENCES

1. Purchase Capital Assets of \$100,000

				Debit	Credit
Cash Basis					
<i>Income Statement</i>		Capital Expenditure		\$100,000	
Effect - Increase expense on the Income statement by \$100,000					
Accrual Basis					
<i>Balance Sheet</i>		Capital Asset		\$100,000	
<i>Balance Sheet</i>		Cash			\$100,000
Effect - Increase capital asset and decrease cash by \$100,000 on balance sheet					

ACCRUAL vs CASH DIFFERENCES

2. Monthly Depreciation for Capital Asset Purchase of \$100,000 Straight Line 10 Years

Cash Basis				Debit	Credit
Income Statement					
<i>No effect</i> - expense the entire amount when purchased					
Accrual Basis					
Income Statement		Depreciation Expense		833.33	
Balance Sheet		Accumulated Depreciation			\$833.33
<i>Effect</i> - Decrease asset on the balance sheet and increase expense on the income statement					

ACCRUAL vs CASH DIFFERENCES

3. Collected \$120,000 in Advance Rent from Tenant

			Debit	Credit
Cash Basis				
Income Statement		Rental Revenue	\$120,000	
<i>Effect</i> - Increase revenue on income statement				
Accrual Basis				
Balance Sheet		Cash (Asset)	\$120,000	
Balance Sheet		Prepaid Rent (Liability)		\$120,000
<i>Effect</i> - Asset and a liability on balance sheet increases. No impact on the income statement.				

ACCRUAL vs CASH DIFFERENCES

4. One Month of the Advanced Rent is Actually Earned.

				Debit	Credit
Cash Basis					
Income Statement					
<i>No effect</i> - Revenue was booked when received not when earned					
Accrual Basis					
Balance Sheet		Prepaid Rent (Liability)		\$10,000	
Income Statement		Rental Revenue (Income)			\$10,000
<i>Effect</i> - Decrease liability on the balance sheet and increase revenue on the income statement					

ACCRUAL TRANSACTIONS

	Balance Sheet		Income Statement	
	Debit	Credit	Debit	Credit
Bill a customer \$800,000 for professional services performed				
Accounts Receivable (Current Asset)	\$ 800,000			
Professional Service Income (Revenue)				\$ 800,000
Receive a customer payment of \$500,000				
Cash (Current Asset)	\$ 500,000			
Accounts Receivable (Current Asset)		\$ 500,000		
				NO IMPACT ON INCOME STATEMENT
Receive a bill from a vendor for office supplies of \$2,000				
Accounts Payable (Current Liability)		\$ 2,000		
Office Supplies (Expense)			\$ 2,000	
Paid the vendor bill of \$1,000				
Cash (Current Asset)		\$ 1,000		
Accounts Payable (Current Liability)	\$ 1,000			
				NO IMPACT ON INCOME STATEMENT



CASH BASIS PROS

- ✓ 20-30% of time and cost savings (per Journal of Accountancy).
- ✓ Easier to understand.
- ✓ Less complex = less training required.
- ✓ Decreased risk of audit findings.
- ✓ Less pages to draft (13 pages versus 49 pages)!





CASH BASIS CONS

- ✓ Adverse audit opinion!
- ✓ No balance sheet.
- ✓ Notes are very minimal compared to GAAP.
- ✓ Inconsistent trends = difficult to compare years.
- ✓ Conversion to GAAP later will be more difficult.





ACCRUAL BASIS PROS

- ✓ More transparent (disclosures of assets, liabilities, and various notes).
- ✓ Better evaluation of financial position (full picture of the entity).
- ✓ Better comparison and more consistent.
- ✓ GFOA award opportunity!





ACCRUAL BASIS CONS

- ✓ You have to deal with GASB!
- ✓ More timely and costly.
- ✓ Requires more sophisticated software and staff.
- ✓ Difficult to understand.
- ✓ More complex = lots more training required.
- ✓ Increased risk of audit findings.
- ✓ Lots of pages to draft (double that of cash basis).





QUESTIONS ?????

