



Modified Cash Basis of Accounting

To maintain consistency and comparability in audited financial reports submitted to the Office of the State Auditor, if the financial statements are prepared under the modified cash basis of accounting, the following minimum modifications need to be made to the financial statements in order for the financial statements to be in the form and content required by the State Auditor:

- Long-term debt such as bonds that arise from cash transactions or events; and
- Capital assets arising from cash transactions or events and related depreciation expense.

The following disclosures should be made if material and applicable:

- Summary of significant accounting policies;
- Deposit and investment risk disclosures;
- Capital Assets and long-term debt disclosures;
- Internal and inter-fund balances and transfers;
- Fund balance purpose classifications if not presented on the face of the statements;
- Pension and OPEB notes;
- Risk management disclosures;
- Subsequent events;
- Accounting changes and error corrections;
- Related-party transactions;
- Commitments and contingencies; and
- Tax abatements;

The following modifications should not be made to the financial statements under the modified cash basis of accounting:

- Accounts receivable when no cash inflows or outflows have been involved;
- Intergovernmental receivables when no cash inflow or outflow has been involved;
- Accounts payable when no cash outflow has been involved;
- Salaries payable and related payroll liabilities when no cash outflow has been involved;
- Accrued compensated absences;
- Pension and OPEB liabilities when no cash outflows were involved; and
- SBITA assets or Lease assets that did not derive from an initial cash transaction.

Other modifications that can be made but are not required include the following:

- Recording of inventories acquired resulting from a cash outflow;
- Recording of deferred inflows and outflows or resources resulting from cash transactions or events;
- Loans receivable and related transactions that resulted from an initial cash outflow; and
- Other material account balances or class of transactions that resulted from a cash transaction or event, is logical, and is substantially supported by GAAP.

While not authoritative, the AICPA has developed a special purpose framework guide for State and Local Governments. A link to the guide can be found [here](#).

Note: The auditor may seek approval from the State Auditor's Office to waive this requirement in advance, under certain circumstances.



Office of the
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