GAAP vs Cash Basis of Accounting
and Summary of Pros & Cons

Washington States laws and the Washington State Auditor’s Office rules allow Washington entities to choose GAAP or Cash methods of accounting and reporting. This sheet summarizes the major advantages of both methods.

**GAAP basis of Accounting:** Uses full accrual for Water & Sewer funds, modified accrual for all other funds. Annual Financial Statements are required to include:

- A *Balance Sheet* for each fund.
- A *Statement of Revenues, Expenditures, and Changes in Fund Balance* for each fund.
- A City-wide *Statement of Net Position* with separate columns for “Governmental Activities” and “Business-type activities” (water/sewer).
- A City-wide *Statement of Activities* with separate columns for “Governmental Activities” and “Business-type Activities” (water/sewer).
- A Reconciliation of the City-wide *Statement of Activities* to the fund *Statements of Revenues, Expenditures, and changes in Net Position*.
- A Reconciliation of the City-wide *Statement of Net Position* to the fund *Balance Sheets*.
- A separate “Management Discussion and Analysis” (MD&A) with prescribed sections and areas to cover. Our MD&A was 14 pages long in our most recent financial statements.
- Extensive Note disclosures. The Notes are 32 pages long in our most recent financial statements.
- An *Accountability Audit Report* evaluating the City’s internal controls for safeguarding public assets and compliance with State laws and regulations.

**CASH basis of Accounting:** Uses the Cash basis for all funds. Annual Financial Statements are required to include:

- A *Summary of Fund Resources and Uses* for each fund which shows beginning cash, revenues, expenditures, and ending cash.
- Simplified Note disclosures. The Cash-basis Notes for the City of White Salmon are 8 pages long in their most recent financial statements.
- An *Accountability Audit Report* evaluating the City’s internal controls for safeguarding public assets and compliance with State laws and regulations.
SUMMARY OF PROS AND CONS:

GAAP basis of Accounting:
1. Provides a higher level of fiscal accountability and transparency for technical readers of the financial statements.
2. Has a focus on an entity’s overall economic condition, vs the Cash Basis focus of current financial resources.
3. Allows technical users better ability to evaluate a government’s complete economic position.
4. May result in an improved credit rating and reduced borrowing costs.
5. Some grant agencies may prefer the GAAP method of accounting.

CASH basis of Accounting:
1. Much simpler for day to day use and for preparation of the annual financial statements. Preparation of the annual financial statements under GAAP can take up to a month. Preparation under the Cash basis takes about a week.
2. More understandable for local users of the financial statements including City Council, staff, and citizens.
3. Cost savings from less staff time required to prepare the financial statements and assist with the annual audit, and reduced audit expense from the State Auditor’s Office.
4. Consistency. The rules for Cash Basis accounting stay the same year to year, unlike GAAP accounting rules which change frequently as new accounting standards are introduced by the Governmental Accounting Standard Board (GASB).
5. Used by most other small cities in Washington.

Financial Statements prepared under either method include summaries of significant accounting policies, budget information, investments, property taxes, interfund loans, debt service requirements, pension plans, risk management, and other specified disclosures. Both methods are able to use double-entry accounting.