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Navigating Disclosure Requirements for OCBOA Financial Statements

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As we have noted in previous reports, there are widely-used alternatives to U.S. generally accepted accounting principles (U.S. GAAP) which are collectively referred to in the authoritative literature as special purpose frameworks. These other frameworks include:

- **Cash Basis**: A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support
- **Tax Basis**: A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements
- **Regulatory Basis**: A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to which jurisdiction the entity is subject
- **Contractual Basis**: A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the auditor
- **Other Basis**: A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements

CPEA Observation: The cash basis, tax basis, regulatory basis, and other basis of accounting are commonly referred to as other comprehensive bases of accounting (OCBOA) in AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks,* specifically in AU-C 800.07.

In previous reports, we have addressed a number of issues related to financial statements prepared using a special purpose framework. These include the following:

- *Revenue Recognition Disclosures in Non-GAAP Financial Statements*
- *Revenue Recognition: A Comparison of Alternative Financial Reporting Frameworks*

- *Special Purpose Frameworks for NFP Entities: Impact of the FASB's NFP Standard*
- *Common Questions About Special Purpose Frameworks*

But, perhaps the most difficult issue practitioners need to address in preparing and reporting on OCBOA financial statements—whether cash basis or tax basis—relates to the adequacy of disclosure within those statements. This is because authoritative accounting literature does not address bases of accounting other than U.S. GAAP or the disclosures necessary in such presentations. However, guidance on disclosing information in such presentations can be found in both the Statements on Auditing Standards (SASs) and the Statements on Standards for Accounting and Review Services (SSARSs).

In this report, we examine the auditing and SSARSs guidance related to OCBOA financial statements. From there, we will address specific disclosure topics and provide the CPEA's interpretations and recommendations related to each. Due to the prevalence of the modified cash basis and income tax basis, our discussion will focus on these two special purpose frameworks.

Audit Guidance

AU-C 800 provides authoritative guidance related to OCBOA financial statements. AU-C 800.16 requires auditors to evaluate whether OCBOA financial statements are suitably titled, include a summary of significant accounting policies, and adequately describe differences between the special purpose framework and U.S. GAAP.

AU-C 800.18 requires that, when OCBOA financial statements include items that are the same as or similar to those in financial statements prepared under U.S. GAAP, the auditor should evaluate whether the OCBOA financial statements include informative disclosures similar to those required by U.S. GAAP. Also, the auditor should evaluate whether additional disclosures, beyond those specifically required by the framework, that are related to matters not specifically identified on the face of the financial statements, or other disclosures, are necessary for the financial statements to achieve fair presentation.

AU-C 800.A25 indicates that achieving fair presentation includes providing all informative disclosures appropriate for the applicable financial reporting framework, including matters that affect the use, understanding, and interpretation of the financial statements. AU-C 800.A40, Appendix B, *Fair Presentation and Adequate Disclosures,* provides more guidance on determining the adequacy of disclosures prepared using a special purpose framework, including examples of qualitative disclosure information and some U.S. GAAP disclosure requirements that would not be relevant to specific special purpose frameworks.

Further, AU-C 800.A27 indicates that OCBOA financial statements may substitute qualitative information for the quantitative information that U.S. GAAP requires or, alternatively, provide information that communicates the substance of those requirements. An example indicates that disclosing estimated percentages of revenues, rather than amounts as required by U.S. GAAP, may adequately convey the significance of sales or leasing to related parties or major customers.

SSARSs Guidance

Guidance on disclosures in OCBOA financial statements is also found in AR-C 80, *Compilation Engagements,* and AR-C 90, *Review of Financial Statements*. The SSARSs indicate that for compiled or reviewed OCBOA financial statements to be appropriate in form, they should include:

- A description of the special purpose framework, including a summary of significant accounting policies, and how the framework differs from U.S. GAAP
- Informative disclosures similar to those required by U.S. GAAP for items that are the same as, or similar to, those in financial statements prepared in accordance with U.S. GAAP
- Additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose framework to achieve fair presentation

CPEA Observation: The SSARSs also include much of the same disclosure information found in AU-C 800.

AICPA Practice Aid

The AICPA has a practice aid, *Accounting and Financial Reporting Guidelines For Cash- and Tax-Basis Financial Statements* (the AICPA Practice Aid), that provides nonauthoritative guidance about preparing financial statements using a cash basis or tax basis financial reporting framework. This practice aid is intended to provide preparers of cash- and tax-basis financial statements with guidelines and best practices to promote consistency and for resolving the often difficult questions regarding the preparation of such financial statements. Information from the AICPA Practice Aid is considered in this report and is available free of charge to CPEA members at www.aicpa.org/cpea.

Navigating the Disclosures

Based on the above sources of authoritative and non-authoritative guidance, a reasonable approach to determining the appropriate disclosures in OCBOA financial statements is to consider the following:

- Summary of significant accounting policies
- Disclosures related to items in the financial statements
- Other U.S. GAAP disclosure requirements

These topics are discussed in the following sections of this report.

Summary of Significant Accounting Policies

FASB *Accounting Standards Codification* (FASB ASC) 235, *Notes to Financial Statements*, addresses disclosure of accounting policies in U.S. GAAP financial statements. Specifically, FASB ASC 235-10-50-3 indicates that "Disclosure of accounting policies shall identify and describe the accounting principles followed by the entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, or results of operations." As noted above, both the audit guidance and the SSARSs require that the notes to the financial statements include a summary of significant accounting policies. Accordingly, FASB ASC 235, AU-C 800, and the SSARSs provide authoritative guidance on the summary of significant accounting policies for OCBOA financial statements as explained below.

a. Basis of Accounting: The description only needs to identify the basis (e.g., "the cash basis of accounting, modified to record certain assets or liabilities" or "the modified cash basis;" "the basis of accounting used for federal income tax reporting" or "the accrual method of accounting used for federal income tax purposes").
b. Primary Differences between the Basis Used and U.S. GAAP: The description ordinarily only includes the material differences; the remaining differences need not be described. Items in the statement of financial position that would be accounted for differently under U.S. GAAP can be used to identify these differences. Both the audit guidance and the SSARs indicate that quantifying the effects of differences in the description of the basis is not required.

Practice Note: If there are no material differences between U.S. GAAP and the basis used (e.g., when the income tax basis is used solely to comply with a partnership agreement), we recommend disclosing that there are no material differences.

FASB ASC 235-10-50-1 requires disclosure in U.S. GAAP financial statements of all the significant accounting policies used to prepare the statements. In particular, FASB ASC 235-10-50-3 requires disclosure of any accounting policies that involve a selection from existing acceptable alternatives, industry peculiarities, and unusual or innovative applications of accounting principles. We recommend following the U.S. GAAP guidance. Therefore, in addition to the description of the basis, the OCBOA financial statements should disclose the accounting policies significant to the presentation.

Practice Note: Typically, accounting policies can be sufficiently described through the description of the major differences from U.S. GAAP. For example, if there are several items that are accounted for differently under the special purpose framework than they would be under U.S. GAAP, but the only material difference is how revenue is recognized, a description of the revenue difference is all that would be needed.

Modified Cash Basis

The description of the primary differences from U.S. GAAP should provide enough information for the financial statement reader to understand the basis. Therefore, the description of the basis does not need to identify the modifications of the cash basis. The following is an example of this description:

> The accompanying financial statements have been prepared on the cash basis of accounting, modified to record assets or liabilities with respect to cash transactions and events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. The modifications result in the recording of investments, inventories, capital assets, and related short-term and long-term obligations on the statement of financial position. This basis of accounting represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). This basis of accounting differs from U.S. GAAP primarily because certain revenue and related assets (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) have been recognized when received rather than when earned and certain expenses and related liabilities (such as accounts payable and expenses for goods or services received but not yet paid, and other accrued liabilities and expenses) have been recognized when paid rather than when the obligations were incurred.

Income Tax Basis Presentations

The description of the accounting basis should indicate whether the cash method or accrual method of accounting is used for tax reporting. In addition, since federal tax law often differs from that of other taxing authorities, it is helpful to disclose which tax reporting scheme is used, such as the “accrual basis of accounting used for federal income tax reporting.” The following is an example of the description for a cash method taxpayer:

> The accompanying financial statements have been prepared using the cash method of accounting used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). That basis differs from U.S. GAAP primarily because receipts of customer payments in advance are

> recognized immediately instead of being deferred and because expenses generally are recognized when paid instead of when the underlying obligation is incurred.

The following is an example of the description for an accrual method taxpayer:

> The accompanying financial statements have been prepared using the accrual method of accounting that the Company uses for federal income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). This basis differs from U.S. GAAP primarily because the Company expenses the cost of certain types of assets in accordance with IRC 179. U.S. GAAP requires that such assets be capitalized and expensed over their estimated useful lives.

The CPEA also recommends that the summary of significant accounting policies note for tax-basis financial statements include disclosure of the following:

- The tax filing status of the entity, if other than a taxable corporation (that is, a C corporation)
- That revenues and related assets and expenses and related obligations are recognized only when they are reported or deducted for federal income tax purposes
- That nontaxable income and nondeductible expenses are included in the determination of the equivalent of operating results or "net income"
- The nature of any optional tax methods of accounting followed
- The nature of any important judgments or policies necessary for an understanding of the methods of recognizing revenue and allocating costs to current and future periods

CPEA Observation: There are various sections of the FASB ASC that also specify accounting policies that should be disclosed. Examples include a description of depreciation methods required by FASB ASC 360, *Property, Plant, and Equipment*, and disclosures about policies related to the collection of sales and similar taxes required by FASB ASC 606, *Revenue from Contracts with Customers*. Other examples include policies related to inventory, investments, income taxes, and consolidation. We recommend that, if the policies are relevant to the OCBOA financial statements, similar disclosures should be provided.

<u>Disclosures Related to Items in the Financial Statements</u>

As discussed above, the authoritative guidance indicates that, if OCBOA financial statements contain amounts for which U.S. GAAP would require disclosure, the financial statements should either provide the relevant disclosure or provide information that communicates the substance of that disclosure. Applying that guidance requires (a) identifying financial statement items for which U.S. GAAP would require disclosure; (b) deciding whether the U.S. GAAP disclosure requirement is relevant; and (c) if the requirement is relevant, deciding whether to follow that requirement or to meet the objective of that requirement through other means.

U.S. GAAP requires a number of disclosures for items reported in financial statements. Accordingly, if the U.S. GAAP item has an equivalent item in the modified cash or income tax basis presentation, it seems reasonable that the U.S. GAAP disclosure requirements would be relevant to the presentation. That analysis is illustrated in the following categories of U.S. GAAP disclosures:

- <u>Disclosures related to amounts (e.g., depreciation, interest, rent, etc.)</u>—if U.S. GAAP would require disclosure of an amount, that amount should be disclosed in the OCBOA financial statements. For example, the U.S. GAAP requirement to disclose depreciation expense is relevant to a tax basis presentation that has depreciable assets because the tax basis financial statements would report depreciation. In addition, depreciation expense is a common modification found in modified cash basis presentations. Therefore, disclosure of the depreciation expense would be appropriate in that presentation, as well.
- <u>Disclosures related to components of amounts (e.g., components of property and equipment and the income tax provision)</u>—if U.S. GAAP would require disclosing the components of an amount in the financial statements, those components also should be disclosed in OCBOA financial statements. For example, the components of rental or other property and equipment should be disclosed in tax basis statements or in modified cash basis statements that capitalize property and equipment. However, the U.S. GAAP requirement to disclose the components of income taxes is not relevant if deferred taxes are not measured (e.g., in a modified cash basis presentation) or are not applicable (e.g., in an income tax basis presentation).
- <u>Disclosures related to measurement (e.g., assets measured at fair value, assets that have been reduced below their cost, accrued losses, etc.)</u>—whether the U.S. GAAP requirement is relevant depends on whether it relates to the same measurement as in the modified cash or income tax basis presentation. For example, the requirement to disclose information about unrealized gains and losses on investments in marketable equity securities is not relevant to a tax basis presentation that measures the investments at cost. Similarly, requirements to provide information about asset valuation allowances are not relevant to tax basis presentations that only recognize losses when they are realized.

CPEA Observation: Nonauthoritative guidance in AICPA's Technical Questions and Answers (TQA) 1800.06, *Applicability of Fair Value Disclosure Requirements in FASB ASC 820 to Financial Statements Prepared in Accordance With a Special Purpose Framework,* specifically addresses whether financial statements prepared using a special purpose framework, that include accounts measured at fair value, should comply with the fair value disclosure requirements in FASB ASC 820, *Fair Value Measurement*. TQA 1800.06 indicates that, if special purpose financial statements include assets or liabilities measured at fair value in accordance with FASB ASC 820, the disclosure requirements of FASB ASC 820 should be considered.

- <u>Disclosures related to transactions (e.g., descriptions of leasing arrangements, scheduled principal reduction of long-term obligations, terms of related-party transactions, etc.)</u>—generally, these requirements would be relevant to modified cash and income tax basis presentations, but alternatives (e.g., narrative descriptions) often may be used to communicate the substance of the requirements.
- <u>Disclosures related to other information (e.g., the relationship of the tax provision to pretax income)</u>—generally, whether other information about the item is relevant depends on the basis of accounting. For example, under the modified cash basis, you would not expect the relationship of income taxes and pretax income to be predictable, so the U.S. GAAP requirement to disclose the primary reasons for the variance in the relationship is not relevant. On the other hand, the notes to the financial statements should include disclosure of commitments related to long-term lease agreements, even though the amount of rent expense may differ depending on the basis of accounting used.

Practice Note: Financial statement items for which U.S. GAAP would require disclosure can be identified by using a disclosure checklist available from third party vendors, such as PPC.

<u>Other U.S. GAAP Disclosure Requirements</u>

U.S. GAAP also requires disclosures related to a variety of other information that does not correlate directly to items reported in the financial statements, such as the following:

- Risks and uncertainties
- Going concern considerations
- Subsequent events
- Related-party transactions
- Commitments and contingencies
- Impairment of assets

- Uncertainty in tax positions
- Arrangements with variable interest entities

The CPEA recommends evaluation of the need for similar disclosures in modified cash and income tax basis financial statements following an approach similar to the one discussed in the previous section. That is, entities should (a) identify the other information for which U.S. GAAP would require disclosure (e.g., by using a disclosure checklist); (b) decide whether the U.S. GAAP disclosure requirement is relevant; and (c) if the requirement is relevant, decide whether to follow that requirement or to meet the objective of that requirement through other means.

Risks and Uncertainties

FASB ASC 275, *Risks and Uncertainties*, requires information about the following four areas:

a. Nature of operations—this disclosure helps financial statement users understand the nature of the entity's business and the risks common to that business and would be relevant to all modified cash and income tax basis presentations. Entities should disclose a description of the major products or services the reporting entity sells or provides and its principal markets.
b. Use of estimates—this disclosure includes an explanation that the preparation of financial statements in accordance with U.S. GAAP requires the use of management's estimates. Accordingly, the relevance of this information would depend on whether the accounting basis uses estimates. For example, it may be relevant to the modified cash basis, such as when useful lives are estimated for depreciation calculations. The requirement also may be relevant to the income tax basis, such as when estimated direct costs are used to calculate the percentage of completion of contracts.
c. Certain significant estimates—the purpose of the disclosure is to communicate to financial statement users that there is a reasonable possibility that certain estimated amounts in the current year financial statements will change significantly and affect the subsequent years' financial statements. Therefore, this information would be relevant to modified cash and tax basis statements that have estimates.
d. Vulnerability due to concentrations—this disclosure is intended to notify financial statement readers of the reasonable possibility that the loss of a significant customer, supplier, or other concentration will have a severe impact on the entity. The information would be relevant to all modified cash and income tax basis presentations. For example, the reasonable possibility that the loss of the source of a significant portion of the recorded cash receipts will have a severe impact is relevant to the readers of a modified cash basis presentation. Note, however, there is no requirement to quantify the effect. Instead, the significance of the

concentration can be conveyed using estimated percentages, such as "approximately 40%," a ratio, such as "approximately one-third," or adjectives, such as "most."

Going Concern Uncertainty

FASB ASC 205-40, *Presentation of Financial Statements—Going Concern*, provides guidance on evaluation of going concern and indicates that the evaluation of an entity's ability to continue as a going concern is management's responsibility. FASB ASC 205-40 also requires disclosure of certain matters related to going concern. Specifically, FASB ASC 205-40-50-1 requires management to evaluate whether conditions or events indicate there is substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or the date the financial statements are available to be issued.

Although the modified cash basis and income tax basis do not include an explicit requirement for management to evaluate the entity's ability to continue as a going concern for a reasonable period of time, the auditor's responsibility is addressed in AU-C 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. Lack of a specific requirement for management to assess going concern under a special purpose framework is also discussed in the SSARSs. According to AU-C 570.11 and AR-C 90.08, when the entity uses a financial reporting framework that does not specify a forward-looking time period for management to consider any going concern issue, then a reasonable period of time is within one year from the date the financial statements are issued.

Requirements for Special Purpose Financial Statements

AU-C 570.03 indicates that special purpose financial statements may or may not be prepared in accordance with an applicable financial reporting framework for which the going concern basis of accounting is relevant. As a result, when the going concern basis of accounting is not relevant, the requirements of AU-C 570 to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting do not apply. However, irrespective of whether the going concern basis of accounting is relevant in the preparation of special purpose financial statements, the requirements of AU-C 570 apply regarding the auditor's responsibilities to perform the following:

- Conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity's ability to continue as a going concern for a reasonable period of time

- Evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity’s ability to continue as a going concern for a reasonable period of time

The auditor’s responsibilities under AU-C 570 apply even if the applicable financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific evaluation of the entity’s ability to continue as a going concern.

For review engagements, AR-C 90.38 indicates that, if the applicable financial reporting framework does not include a requirement for management to evaluate the entity’s ability to continue as a going concern for a reasonable period of time in preparing financial statements, and conditions or events that raise substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time existed at the date of the prior period financial statements (regardless of whether the substantial doubt was alleviated by the accountant’s consideration of management’s plans) or, in the course of performing review procedures on the current period financial statements, the accountant becomes aware of conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, the accountant should do the following:

- Inquire of management whether the going concern basis of accounting is appropriate
- Inquire of management about its plans for addressing the adverse effects of the conditions and events
- Consider the adequacy of the disclosure about such matters in the financial statements

Clearly, financial results should be considered when determining whether there is substantial doubt about the entity’s ability to continue as a going concern. However, other conditions also could indicate uncertainty about going concern. For example:

- Other indications of possible financial difficulties—default on loans or similar agreements, denial of usual trade credit from suppliers, a need to restructure debt to avoid default, or a need to seek new sources or methods of financing or to dispose of substantial assets
- Internal matters—work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, or a need to significantly revise operations
- External matters—legal proceedings, legislation, or similar matters that might jeopardize the entity’s ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier; or an uninsured or underinsured catastrophe such as a hurricane, tornado, earthquake, or flood

Practice Note: Importantly, the presence of the conditions or events above is not impacted by whether the financial statements are prepared using a special purpose framework or U.S. GAAP. Accordingly, it would be unusual for the use of the modified cash or income tax basis rather than U.S. GAAP to affect the conclusion about an entity's ability to continue as a going concern.

If the substantial doubt is alleviated as a result of consideration of management's plans, the following would need to be disclosed in the notes to the financial statements:

- Conditions or events that raised substantial doubt (before consideration of management's plans)
- Management's evaluation of the significance of those conditions or events in relation to the reporting entity's ability to meet its obligations
- Management's plans that alleviated the substantial doubt

The following illustrative disclosure addresses the situation when management has taken steps to alleviate the substantial doubt:

> The Company has sustained recurring losses and negative cash flows from operations. Over the past year, the Company's growth has been funded through a combination of private equity, bank debt, and lease financing. As of December 31, 2020, the Company had approximately $175,000 of unrestricted cash. On January 12, 2021, the Company executed an agreement with a group of private investors, whereby the Company issued $7,500,000 in convertible subordinated loan notes. The Company believes that, as a result, it currently has sufficient cash and financing commitments to meet its funding requirements over the next year. However, the Company has experienced and continues to experience negative operating margins and negative cash flows from operations, as well as an ongoing requirement for substantial additional capital investment. The Company expects that it will need to raise substantial additional capital to accomplish its business plan over the next several years. The Company expects to seek to obtain additional funding through a bank credit facility or private equity. However, there can be no assurance as to the availability or terms upon which such financing and capital might be available.

If substantial doubt is not alleviated after consideration of management's plans, the following would need to be disclosed in the notes to the financial statements:

- A statement that there is substantial doubt about the reporting entity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued
- Conditions or events that raised substantial doubt

- Management’s evaluation of the significance of those conditions or events in relation to the reporting entity’s ability to meet its obligations
- Management’s plans that are intended to mitigate the conditions or events that raise the substantial doubt

The following is an example of a disclosure where substantial doubt is not alleviated:

> The Company incurred a loss of approximately $1,700,000 in 2020 and continued to experience certain decreases in working capital. As a result, the Company is in technical default of certain covenants contained in its credit and loan agreement with its primary lender. In addition, this default has triggered events of default under certain other obligations of the Company, including the $1,000,000 interim capital financing notes and certain promissory notes secured by real estate. The holders of the interim capital financing notes and promissory notes may, at their option, give notice to the Company that amounts are immediately due and payable. As a result, $8,400,000 of the Company’s total long-term debt has been classified as a current liability in the accompanying statement of assets and liabilities at December 31, 2020.
>
> The Company’s default of the loan agreements described above raises substantial doubt about the Company’s ability to continue as a going concern. The Company is currently working with all of its lenders to obtain necessary waivers under the terms of the various agreements and is negotiating with its primary lender to stabilize its lender relationships by establishing certain internal operating and management plans. The Company is also evaluating the disposal of certain assets and raising new capital for future operations. However, there can be no assurance that the Company will be successful in achieving its objectives.
>
> The accompanying financial statements have been prepared assuming that the Company will continue as a going concern; however, the above conditions raise substantial doubt about the Company’s ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Subsequent Events

FASB ASC 855, *Subsequent Events*, sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued:

- Recognized subsequent events—provide additional information about whether an asset was impaired or a liability was incurred at the end of the reporting period; this information should be considered in determining the carrying amount of the asset or liability at the end of the reporting period
- Non-recognized subsequent events—provide information that does not indicate that an asset was impaired or a liability was incurred at the end of the reporting period, but may require disclosure so the financial statements will not be misleading

FASB ASC 855 also requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date on which the financial statements were issued or were available to be issued.

Nonauthoritative guidance in TQA 1500.07, *Disclosure Concerning Subsequent Events in Special Purpose Financial Statements*, specifically addresses the question of whether financial statements prepared using a special purpose framework should contain the disclosures set forth in FASB ASC 855. TQA 1500.07 clarifies that these disclosures should be made in financial statements prepared on the pure cash, modified cash, or income tax basis of accounting.

The following is an example of a subsequent events disclosure:

> Management has evaluated events subsequent to December 31, 2020, through March 15, 2021, which is the date the financial statements were available to be issued. There were no subsequent events that required adjustment to or disclosure in the financial statements except as follows. [*describe events as necessary*].

Related Party Transactions

The existence of related party transactions that are material individually or in the aggregate and the nature and amounts of the transactions and balances should be disclosed. Note that tax law may define "related party" differently than it is defined in U.S. GAAP. To avoid confusion, the AICPA Practice Aid, *Accounting and Financial Reporting Guidelines for Cash- and Tax-Basis Financial Statements* recommends that the U.S. GAAP definition of related party should be considered for all financial reporting purposes.

Other Disclosures

Based on recommendations in the AICPA Practice Aid, *Accounting and Financial Reporting Guidelines for Cash- and Tax-Basis Financial Statements*, we believe that the following matters also should be disclosed in OCBOA financial statements, as applicable:

- The existence and nature of any material commitments and contingencies
- The existence and nature of any pension or postretirement plans

- The existence and nature of any asset impairment
- Information about uncertain tax positions
- Significant consolidation matters and information about significant relationships with other entities

Summary

One of the common misconceptions related to special purpose frameworks is that there is a substantial reduction in disclosure requirements compared with U.S. GAAP. While there are some disclosures that are not required, other disclosures, as discussed above, are required in addition to those required to communicate the same information as U.S. GAAP disclosures. As such, any reduction in disclosure requirements when preparing special purpose framework financial statements may not be as substantive as initially expected. With that in mind, we hope this report is helpful in understanding and navigating the requirements related to disclosures in OCBOA financial statements. And, as always, the CPEA is available to answer our members' questions.

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