Which Governments Utilize GAAP?

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD®

GAAP and Financial Reporting Framework Choice

Generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB) are used by many state and local governments in the United States to present their financial reports. Users of government financial reports benefit from the consistency, over time, and comparability, across governments, that GAAP-based financial statements provide.

There is no single authority that requires U.S. state and local governments to utilize GAAP. However, governments may be required by their state to use GAAP. In the absence of a requirement, governments may choose to prepare their financial statements in accordance with GAAP for a variety of reasons, such as lower borrowing costs when they enter the debt markets.

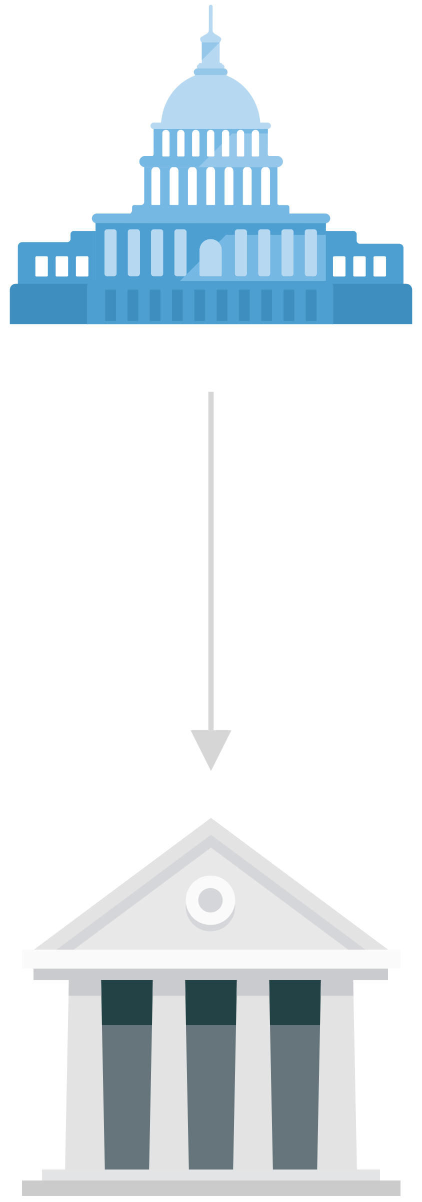
This report summarizes the findings of a recent GASB study to:
(1) determine state requirements related to financial reporting frameworks and (2) better understand factors that lead state and local governments to utilize GAAP when not required by the state to do so.

Environment of Financial Reporting Framework Choice

Governments are subject to a variety of pressures that inform reporting framework choice, including:

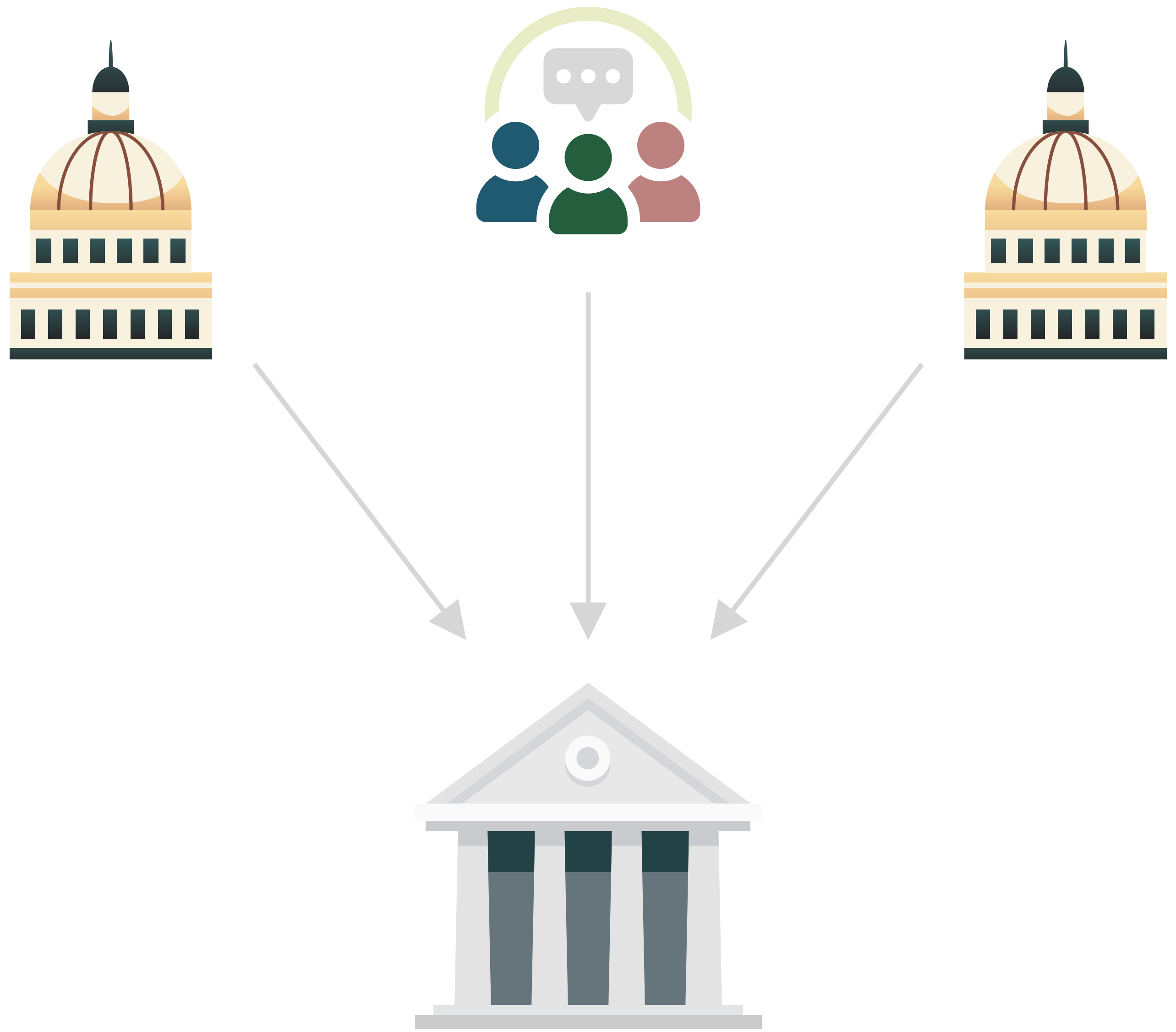
Reporting Requirements

A higher level of government mandates the use of one framework.



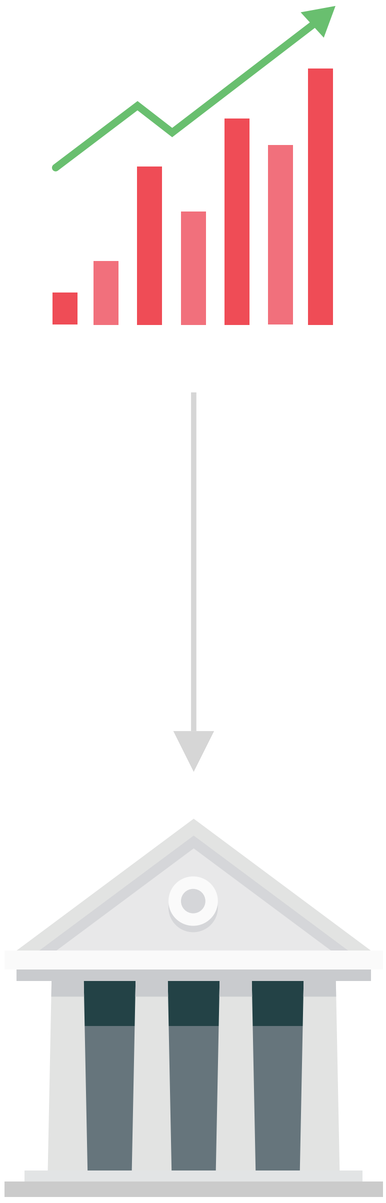
Institutional Pressures

Cultural or organizational factors may influence a government's willingness to use a specific framework (for example, size, the financial reporting practices of other governments, or whether finance officials participate in professional organizations for accountants).

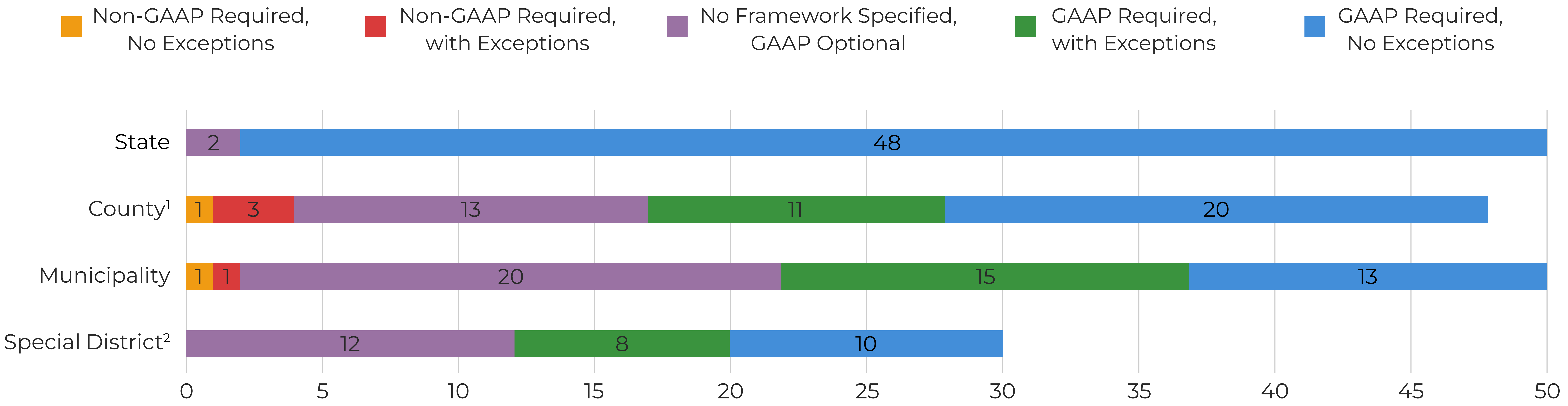


Debt Market

A government chooses the framework treated most favorably by the debt market.



Using state statutes, administrative codes, and policies, we categorized financial reporting requirements for states, counties, municipalities, and special districts into one of the following five categories:



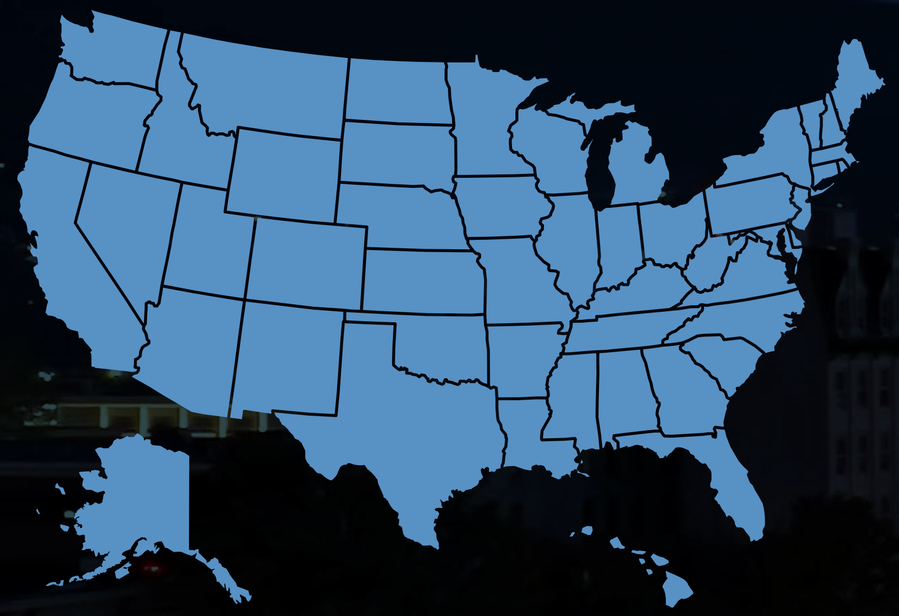
[1] Two states, Connecticut and Rhode Island, do not have counties as reporting units of government.

[2] Of the remaining 20 states, we could not find financial reporting requirements for special districts in 16 states, and in 4 states, the requirements were not the same for all special districts.

We used auditor opinion letters of all 50 states, 435 counties, and 890 municipalities included in the 2021 U.S. Census Bureau Census of Governments to determine the financial reporting framework utilized.

100%

of states utilize GAAP



Total: 50

74%

of audited counties we studied utilize GAAP

Total: 435

71%

of audited municipalities we studied utilize GAAP

Total: 890

Because the governments in our sample were all audited, the results for counties and municipalities should not be extrapolated to unaudited counties and municipalities.

Of the 2,259 governments in our sample, we estimate that 1,530 have public debt and are required to file continuing disclosures with the Municipal Securities Rulemaking Board (MSRB). GAAP utilization among these 1,530 governments is similar to the overall population: 100% for states, 75% for counties, and 71% for municipalities.

In addition, we also calculated GAAP utilization rates within our full sample of 2,259 audited governments based on revenues and total debt outstanding. Using these measures of magnitude, GAAP utilization rates are higher, 100% for states and between 93% and 99% for counties and municipalities, depending on the measure used.

We studied special districts in the 30 states where we could locate a single statute or administrative code that specifies the financial reporting framework. Financial statements for special districts were more difficult to locate than those of states, counties, and municipalities. Of the 1,478 we looked for, we could only locate 890 and removed an additional 6 for missing information.

Of the remaining **884** special districts, **89%** (785) utilize GAAP. These results should not be extrapolated outside of audited special district governments or to the 16 states where we could not identify financial reporting requirements. GAAP utilization is likely much lower outside of our sample setting.

Sample and Statistical Tests

Combining the information collected about whether governments utilized GAAP, we then reduced our sample to those audited governments in states where state requirements allow choice in selecting a financial reporting framework and where there is variability in frameworks utilized. Using data we collected, as well as data provided by the U.S. Census Bureau and the Municipal Securities Rulemaking Board, we evaluated the factors associated with GAAP choice.

Using a logit regression technique on the sample of **1,372** counties, municipalities, and special districts, we find that larger governments (those with more revenue), those with more debt, and those subject to a Single Audit are more likely to utilize GAAP.

In contrast, those governments in states with a well-developed alternative financial reporting framework (with supporting manuals and templates) are less likely to utilize GAAP.

Factors Associated with GAAP Utilization

We identified the following statistically significant factors that increase or decrease the likelihood of GAAP utilization.

Factor	Increases/Decreases the Likelihood of Utilizing GAAP
Total Revenue	▲
Debt Outstanding	▲
Subject to a Single Audit (that is, Uniform Guidance Audit)	▲
Alternative Financial Reporting Framework Available	▼

What’s Next?

Our study provides a foundation for our future assessments of GAAP utilization. Related to our first research objective, the identification and categorization of state financial reporting requirements will allow us to periodically evaluate whether requirements are changing across the five categories as a result of changes in state law.

Related to the second objective, we can use our statistical model to predict the likelihood of a single government or groups of governments utilizing GAAP. In addition, we can update the model for additional factors that may affect GAAP utilization.


Click here to view the full report.
GASB
GOVERNMENTAL
ACCOUNTING
STANDARDS BOARD®