

Financial Reporting Framework Requirements for State and Local Governments: Evaluating GAAP Choice

Tammy Waymire
Governmental Accounting Standards Board

Kara Deiana
Governmental Accounting Standards Board

Joseph Wicklund
Governmental Accounting Standards Board

Stephen Bratcher
Governmental Accounting Standards Board

Kenneth Briggs
Cornerstone Research, formerly Governmental Accounting Standards Board

Hannah Hageman
Governmental Accounting Standards Board

Carson Morrow
KPMG, formerly Governmental Accounting Standards Board

Emily Pesce
KPMG, formerly Governmental Accounting Standards Board

Keywords: GAAP utilization, state and local government, regulatory framework

Acknowledgments: The authors appreciate Alisha Gurnani and John Hatley at the U.S. Census Bureau and Karl Eiholzer at the Municipal Securities Rulemaking Board for their contributions to our data collection. We also thank Josh Winfrey and Kim O’Ryan at the National Association of State Auditors, Comptrollers, and Treasurers for distributing a survey to their members on our behalf.

Financial Reporting Framework Requirements for State and Local Governments: Evaluating GAAP Choice

Abstract: Although the Governmental Accounting Standards Board (GASB) establishes generally accepted accounting principles (GAAP) for state and local governments, there is no single authority that requires that GAAP be utilized. Rather, each state can decide to require a financial reporting framework (either GAAP or an alternative) or allow its local governments choice in selecting a framework. In this study, we first identify financial reporting requirements for states, counties, municipalities, and special districts. We then, in a sample of 1,372 counties, municipalities, and special districts in seven states that allow choice in selecting a financial reporting framework, test and find that larger governments, those governments with debt including the issuance of public debt subject to filing with the Municipal Securities Rulemaking Board and subject to a Single Audit as a result of federal funding, are more likely to utilize GAAP. Furthermore, governments in states with a well-developed alternative to GAAP are less likely to utilize GAAP. These findings provide a basis for predicting and assessing future changes in GAAP utilization.

I. INTRODUCTION

The Governmental Accounting Standards Board (GASB) has been the primary body for setting Generally Accepted Accounting Principles (GAAP) for state and local governments in the U.S. since 1984. Unlike the corporate setting in which the U.S. Securities Exchange Commission prescribes GAAP for publicly traded companies, no one entity prescribes the use of GAAP for state and local governments; rather, each state sets financial reporting requirements for units of government within its borders, with many states offering choice in the selection of a financial reporting framework. As a result, the GASB has undertaken research efforts in the past to find state financial reporting requirements and to estimate the degree of GAAP utilization among state and local governments, most notably in 1987 and 2008. This study is a continuation of these efforts to understand the financial reporting environment of state and local governments and, in addition, builds upon related academic research that evaluates the determinants of a government's decision to utilize GAAP.

The two objectives of this study are therefore: (1) to identify state requirements related to financial reporting for state and local governments, and (2) to evaluate the determinants of GAAP choice in the absence of a state requirement to follow GAAP. Both objectives provide a basis for assessing changes in GAAP utilization in the future (whether it is increasing, decreasing, or remaining stable). Our first objective identifies state requirements at a point in time. These requirements are documented in statutes, administrative codes, or published policies and can be evaluated regularly going forward. Our second objective is to understand how local governments respond to optionality permitted in their states by modeling GAAP choice which gives us the ability to make future assessments of expected changes in GAAP utilization. Although our primary focus is not to ascertain a precise percentage of GAAP utilization among

the types of governments in our sample, we also estimate GAAP utilization in the broader cross-section of government entities, using a range with both conservative and optimistic estimates, for the purpose of comparing to previous studies and to any future studies of GAAP utilization.

To address our first objective, we collect state requirements for the four types of governments in our sample: states, counties, municipalities, and special districts. We evaluate and categorize each state's requirement for the specific type of government along a continuum of financial reporting requirements, ranging from a non-GAAP framework being required without exception to a GAAP framework being required without exception. For states, we find that 48 of 50 states require GAAP and all 50 utilize GAAP. We also find that GAAP is less commonly prescribed as the financial reporting framework without exceptions for counties, municipalities, and special districts than for states. A non-GAAP framework is rarely prescribed without exceptions for any type of government.

To address our second objective, we extract a sample of counties, municipalities, and special districts that are: (1) included in the 2021 U.S. Census of Governments, (2) audited, and (3) located in states where all three government types are permitted, by state financial reporting requirements, to choose between GAAP and one or more other financial reporting frameworks. For the governments in our initial sample ($n = 2,209$), we use the auditor opinion letter in the governments' published financial statements to assess whether GAAP is utilized. In five of these states, we find that, despite the state requirements permitting choice of financial reporting framework, all governments utilize GAAP. This further reduces our sample to 1,372 governments in seven states where there is cross-sectional variation.

Drawing upon the extant academic literature, we then evaluate whether the following factors affect GAAP utilization: revenue, outstanding debt and whether the government has public debt,

the type of government, and whether the government is subject to a Single Audit. Beyond the factors that have been previously studied, we also consider state-specific factors. Specifically, despite the optionality that is afforded to the county, municipal, and special district governments in the seven states represented in our sample, our study of the variation in requirements indicates that some states provide well-developed alternative financial reporting frameworks to GAAP. We therefore include an alternative framework variable in our regression models. Consistent with institutional theory, we find governments in states with these developed alternative financial reporting frameworks are less likely to utilize GAAP. In fact, governments in states without such a framework are 12 times more likely to utilize GAAP. Additionally, we find that total revenue and debt variables are directly associated with GAAP utilization, as is the presence of a Single Audit, indicated by their filing with the Federal Audit Clearinghouse (FAC). In the subsample of governments that file with the FAC, results are similar and the magnitude of expenditures of federal grant awards is associated with a greater likelihood of utilizing GAAP. Post-estimation tests suggest that our primary model correctly classifies 82.73% of the observations in our sample.

Finally, we use the data from the broader sample of 2,209 audited counties, municipalities, and special districts to project GAAP utilization rates for the entire population of these government types. The GAAP utilization rate among the 2,209 governments is 78.8%, and we estimate GAAP utilization rates to be between 77.03% and 78.96% for counties and between 66.51% and 73.52% for municipalities. The primary limitation of our archival approach to measuring GAAP utilization is that accessible audited financial statements are more likely to be GAAP-based, i.e., when we cannot locate audited financial statements, it may be because the government does not produce them, or because governments may be less likely to share financial

statements that do not utilize GAAP. The conservative end of our projected range therefore builds in the assumption that financial statements that we could not locate are all prepared using a non-GAAP framework. Among special districts, with the most instances of missing audited financial statements, the conservative end of our projected range of GAAP utilization is 58.36%, substantially lower than the 88.8% GAAP utilization rate within the audited special districts in our sample.

The current study contributes to prior literature in three primary ways. First, it provides an extensive analysis of state-level financial reporting requirements on a continuum for counties, municipalities, and special districts. Such an analysis is important to establish a baseline of requirements against which future statutory and administrative requirement changes can be evaluated to make predictions about changes in GAAP utilization. Second, the regression results, using an archival measure of GAAP utilization, provide the first evidence of the implications of states providing and supporting alternatives to GAAP. Finally, understanding the determinants of GAAP utilization may be helpful to those involved in the implementation of the Financial Data Transparency Act of 2022, where these results may inform the development of a governmental financial reporting taxonomy.

In the following sections, we provide a literature review (Section II); a discussion of the methodology including the collection of state requirements, sample selection, and development of the model (Section III); empirical analysis (Section IV); and a discussion of conclusions and replicability plans (Section V).

II. LITERATURE REVIEW

Consequences of GAAP Financial Reporting Framework

Governments likely anticipate the consequences of their financial reporting framework choice when evaluating whether to utilize GAAP. Prior research has attributed favorable debt market effects to GAAP reporting (e.g., Gore 2004). In addition, Gore (2004) observes stronger favorable effects for municipalities with higher information asymmetry, i.e., where investors are less likely to be able to adequately assess default risk. These municipalities include those that are smaller and those issuing unrated debt. Gore (2004) finds that unrated bond issues in GAAP-mandated states, as compared to states with no GAAP requirement, experience a 34-basis point yield reduction. In addition, she observes a 21-basis point reduction in bond issues in small municipalities. Similarly, Fairchild and Koch (1998, 750) note that states that mandate disclosure for municipal debt issues experience an average reduction in net interest cost of 14 basis points when compared to similar debt issues in states that do not mandate disclosure. St. Clair (2019, 21) adds to this literature by observing that the accrual accounting information required by GASB Statement 34 “reduces information asymmetries and lowers the cost of capital.” Baber and Gore (2008) also quantify the favorable effect of mandating disclosure for municipal debt issues, noting that municipal debt costs are 14 to 25 basis points lower in municipalities with state-imposed requirements to use GAAP accounting. Drawing upon changes in state requirements, Baber and Gore (2008) find municipal debt costs to be significantly lower in the states of Montana and Nevada following the implementation of a GAAP requirement.

Further supporting the debt market’s positive perception of GAAP-based financial statements, Standard & Poor’s (S&P) has noted that a lack of GAAP utilization is associated with weaker Institutional Framework (IF) performance.¹ For example, Missouri’s transparency score

¹ IF is a key credit factor in S&P’s methodology for rating U.S. governments. An organization’s IF includes factors that shape the environment in which a government operates, such as its formal rules and laws or customs and precedents.

(a component of S&P's IF evaluation) moved to weak in S&P's 2023 Update of Institutional Framework for U.S. Local Governments, partly due to a "lack of requirements for audits or generally accepted accounting principles (GAAP) compliance" (S&P Global 2023). In addition to finding that lower general obligation bond interest costs are associated with GAAP reporting, Benson, Marks, and Raman (1991) note that regulatory disclosure requirements "may not be economically efficient," leaving open the possibility that the costs of GAAP utilization may outweigh the favorable debt market effects.

Determinants of GAAP Utilization

Institutional theory provides a lens through which to analyze organizational pressures that influence a government's choice of accounting principles. Institutional theory provides that, for an organization to be perceived as legitimate, it will be subject to "normative, coercive, or mimetic" isomorphic pressures (Collin et al. 2009, 142). As it relates to a government organization's accounting policy, institutional theory describes the process by which a government will conform to the accounting principles resembling its peers and adopt policies that are respected by governments and the accounting profession in order to obtain legitimacy. Researchers have identified key accounting staff's involvement in professional organizations as a normative pressure towards GAAP adoption. In a case study of the Commonwealth of Kentucky's decision to adopt GAAP, Carpenter and Feroz (1990,77) note that Kentucky's Director of the Division of Accounts' involvement in accounting professional organizations, such as the National Association of State Auditors, Comptrollers, and Treasurers (NASACT), the Government Finance Officers Association (GFOA), and the Association of Government Accountants (AGA), created "professional peer pressure for change." They further explain that "professional organizations help ensure that GAAP is recognized by the elected officials, the

professional accounting community, and the public” as a symbol of legitimacy (Id.). Later research by Carpenter and Feroz (2001, 592) further supports the ability of key accounting personnel’s involvement with professional organizations to influence a government’s decision to adopt GAAP. In a sample of cities, counties, and school districts, Khumawala et al. (2014) finds that “governments with no certified public accountant (CPA) on staff are far less likely to adopt GAAP and governments that consistently receive the Government Finance Officers Association (GFOA) Certificate for Excellence in Financial Reporting are far more likely to adopt GAAP (p. 294).” They state that, “for many local governments the decision to adopt GAAP is a response to the pressures of professionalism rather than a rational response to political and economic motives p. 292).”

Another relevant pressure under institutional theory is coercion. A coercive pressure identified by Carpenter and Feroz (1990) is legislative competition, defined as “efforts exerted to build, maintain or establish a dominant coalition of elected officials that is necessary to implement public policies (p. 76).” In their case study of Kentucky’s decision to adopt GAAP, Carpenter and Feroz (1990, 69) note that a Special Session of the General Assembly called by Kentucky’s then-Lieutenant Governor encouraged examination of the commonwealth’s accounting system. The investigation uncovered financial mismanagement and improperly reported results which set the stage for the recommendation to adopt GAAP in order to promote financial accountability and transparency to gain political popularity. These results can be generalized to suggest that political tensions can give rise to demand for more transparent financial reporting and greater acceptance of GAAP. Kim et al. (2018, 3) examine the means through which policy is diffused from state to local governments using state GAAP-mandates as a basis for analysis. The researchers identify coercion, such as when states impose a GAAP

requirement, as the sole determinant of non-voluntary adoption of GAAP by local governments. They explain that states may not only directly intervene in the policy of local governments, but also can control local government behavior by providing or withholding financial assistance (Kim et al. 2018). The concept of resource dependence as a coercive force on government accounting policy is further supported by Carpenter and Feroz's research. Carpenter and Feroz (2001, 571) describe resource dependency as the government's ability "to negotiate exchanges with the environment" to ensure that the government has sufficient resources to survive. While this would include intergovernmental aid as described by Kim et al (2001, 571), resource dependency more broadly includes other external pressures that can control the government's resource availability, such as the credit market or special interest groups. Since GAAP is used to signify legitimacy, external parties may make GAAP utilization a prerequisite for the exchange of resources. The authors conclude that the influence of resource dependency on government policy is more pronounced in times of fiscal stress, such as during a recession. In this vein, Carroll and Marlowe (2009) find that municipalities with greater amounts of federal intergovernmental revenue are more likely to use modified accrual accounting, which the authors associate with a greater likelihood to use "GAAP-like accounting policies for financial reporting." Ingram (1984) acknowledges, however, that, "the federal government [as of 1984] imposes few (if any) reporting requirements on state governments. Instead, it imposes audit requirements relative to intergovernmental revenues (p. 130)."

Previous studies identify other institutional pressures that encourage governments to adopt GAAP. Carpenter and Feroz (2001) identify organizational imprinting, which they describe as "the process by which organizations tend to maintain certain practices adopted at the time the organization was founded (p. 566)," as a force that may lead governments away from GAAP

accounting. Carpenter and Feroz (2001) note that all state governments required cash-basis fund accounting prior to the 1970s and conclude that these established practices may become resistant to change through organizational imprinting. Ingram concludes that more extensive accounting disclosures by governments is correlated with greater demand for financial information (1984, 142). They find that this demand can generate greater incentives for voters and appointed administrators to monitor government finances, as well as greater incentives to reduce debt costs and higher compensation for administrative personnel.

The debt market benefits of GAAP utilization are likely understood by governments in states that allow local units of government discretion in selecting a financial reporting framework. For that reason, academic studies of the determinants of GAAP utilization have incorporated relevant debt variables in predicting GAAP utilization. For example, Carroll and Marlowe (2009, 515) cite municipal investors and credit rating agencies as the “most important stakeholders” in determining a municipality’s accounting policy and found Illinois municipalities that issue debt 2.8 times more likely to utilize GAAP (measured by whether the government used modified accrual as the basis for reporting their governmental funds).

Interest costs are not the only bond market consideration that influences a government’s choice of accounting policy, however. Baber, Beck, and Koester (2024) argue that disclosures required by GASB Statement 34 are unlikely to impact debt insurance costs because “the extent that standardized financial reporting improves insurers’ risk assessments is of little consequence because insurers diversify customer portfolios to minimize portfolio risk” and has little effect on the interest cost of insured debt because “investors lack incentives to monitor financial disclosures because the insurer provides ultimate recourse to investors” (2024, 9). The researchers conclude that the effects of mandated financial disclosure are substantially more

pronounced in uninsured debt. As a result, governments that expect the debt market to react favorably to the disclosure mandates of GASB Statement 34 tend to issue more debt rather than use alternative financing sources and are more likely to insure issued debt (Baber et al. 2024, 33). Gore, Sachs, and Trzcinka (2004) contend that, because the favorable bond market effects of disclosure can be obtained through alternatives such as bond insurance, mandating disclosures can establish a disclosure level that is too high and could prevent the discovery of “alternative capital-cost reducing mechanisms (p. 26).”

III. METHODOLOGY

State Financial Reporting Requirements

We collected and analyzed the state financial reporting requirements in all fifty states for four types of governments—states, counties, municipalities (cities, towns, and villages), and special districts.^{2,3} Our research categorizes applicable laws as follows: (1) a specific statute designates a specific financial reporting framework (either a GAAP or a non-GAAP framework), (2) the required financial reporting framework (either GAAP or non-GAAP) is embedded in an audit statute, (3) the statute designates a specific government official or specified department within the State to establish a financial reporting framework, (4) the statute provides governments the option of selecting a financial reporting framework, or (5) no specific statute is identified. In

² School districts were omitted from our study. A Gil Crain Memorial Research Grant recipient is currently studying the consequences of financial reporting requirements for school districts. Following the completion of this study, GASB staff will do a similar review of requirements for these entities.

³ Our process began with a broad search of state statutes. We used information in two publications to help identify the relevant statutes: the GASB Research Brief: State and Local Government Use of Generally Accepted Accounting Principles for General Purpose External Financial Reporting (Governmental Accounting Standards Board 2008) and Auditing in the States (National Association of State Auditors, Comptrollers, and Treasurers 2021). In addition, NASACT sent inquiries on our behalf to all fifty states requesting they provide a specific state statute, administrative code, or regulatory guidance that governs the financial reporting requirement for the state and its local governments (if applicable). We received responses from thirty-two states and the District of Columbia.

cases where we were unable to locate a relevant statute (finding 5), we made inquiries with those states to confirm that there is no legislation that establishes a financial reporting framework.

Following the identification of applicable statutes, we categorize the financial reporting requirements on a continuum based on five defined categories:

Non-GAAP Required – A statute, administrative code, or designee prescribes a financial reporting framework other than GAAP and does not allow for any exceptions. This category should not be interpreted as prohibiting GAAP as a government may choose to prepare financial statements in accordance with GAAP in addition to financial statements in accordance with the applicable prescribed non-GAAP framework.

Non-GAAP Required with Exception – A statute, administrative code, or designee prescribes a financial reporting framework other than GAAP; however, exceptions are allowed. For example, a state statute designates the state comptroller to prescribe the financial reporting framework for municipalities. The state comptroller prescribes a non-GAAP framework for all municipalities, but also denotes that financial statements prepared on a GAAP basis are acceptable in lieu of the non-GAAP framework. If a municipality chooses a GAAP framework, it would be acceptable in place of the non-GAAP framework.

No Requirement – One specific financial reporting framework is not prescribed by statute or administrative code, nor is a specific framework prescribed by a designated government official or department. This is the result of either no statute or administrative code addressing the financial reporting framework or a statute or administrative code prescribing two or more acceptable financial reporting frameworks where one is GAAP.

GAAP Required with Exception – A statute, administrative code, or designee prescribes GAAP as the financial reporting framework; however, exceptions are allowed. For example, a state statute requires all counties with total annual revenues over \$500,000 to prepare financial statements on a GAAP basis, counties with total annual revenues less than \$500,000 may choose to use a GAAP basis, but also may also choose to use a non-GAAP framework.

GAAP Required – A statute, administrative code, or designee prescribes GAAP as the financial reporting framework and does not allow for any exceptions.

Findings

Table I provides the state requirement findings in detail while Figure 1 summarizes the preceding discussion of the financial reporting requirements for states, counties, municipalities, and special districts. We make two observations related to this depiction. First, GAAP is less commonly prescribed as the financial reporting framework without exceptions for counties,

municipalities, and special districts than for states. Second, a non-GAAP framework is rarely prescribed without exceptions.

Insert Table I. a-d. here

Insert Figure I here

The tables present a summary of the two categorizations we made regarding state financial reporting requirements: (1) where the financial reporting requirement falls on a continuum ranging from fully GAAP with no exceptions to fully non-GAAP with no exceptions, and (2) the source of the requirement within state statutes, administrative codes, policies, or by confirmation from a state representative. In the paragraphs that follow, we summarize the findings for each of the government types—states, counties, municipalities, and special districts.

GAAP is required for 48 out of the 50 states. The remaining 2 (Rhode Island and Wisconsin) do not have explicit requirements, although all 50 states utilize GAAP. These requirements are most commonly included in state statutes related to financial reporting requirements (41 states).

GAAP is required without exceptions for counties in 20 states, and GAAP is required with exceptions in 11 states. In 13 states, there is either no requirement or the statute provides options in selecting a financial reporting framework, and in only 4 states there is a requirement, with or without exceptions, to utilize a non-GAAP reporting framework. The source of the requirements is fairly evenly distributed across reporting statutes (n=17), audit statutes (n=16), and policy (n=10). For those states in which no requirement was identified (5), we received confirmation from state representatives that there is no financial reporting requirement.⁴

⁴ We found financial reporting requirements for counties for 48 states. The remaining 2 states, Connecticut and Rhode Island, do not have counties as units of governments.

For requirements at the municipality level, financial reporting framework requirements are similar to counties with 13 states requiring GAAP with no exceptions for municipalities, 15 requiring GAAP with exceptions, 20 not specifying a single framework, and 2 prescribing a non-GAAP framework. Sources of these requirements are also similar to counties with fairly even distribution across reporting statutes (n=15), audit statutes (n=16), policy (n=11), and confirmation (n=8).

For requirements at the special district level, we collected state requirements for 30 out of 50 states. Of those, 10 required GAAP with no exception and 8 required GAAP with exceptions.⁵ In 12 states, there is no requirement or there is a requirement for either GAAP or another financial reporting framework. The source of the identified requirements is fairly evenly distributed across reporting statutes (n=8), audit statutes (n=11), and policy (n=9).

While we did not evaluate how long state requirements had been in place, we came across several instances where the laws of states changed or unsuccessful efforts were taken to change laws relating to the application of GAAP in governments. In 2007, the Texas Legislature proposed HB 2365 which would have exempted state and local governments in Texas from the reporting requirements of GASB Statement 45. The bill was passed in May of 2007 and provided the state and local governments the option to either report OPEB plans as required by GASB Statement 45 or with a “pay-as-you go” approach as prescribed by a statutory accounting standard rather than completely exempting these governments. Like Texas, the Connecticut General Assembly introduced a bill that would have allowed the state to deviate from GAAP.

⁵ We found explicit financial reporting requirements for special districts in 34 states. In these instances, we found that the laws either provided requirements for either special districts in general (30) or by type of special district (4). For purposes of this research, we excluded those four states in which the requirements were disaggregated by type of special district. We were unable to find explicit financial reporting requirements for special districts in 16 states.

Under Connecticut HB-7338, a statute requiring the state government to use GAAP as prescribed by the GASB would have been retracted and replaced with the requirement that the State Comptroller prescribe the financial reporting framework (Connecticut General Assembly, 2007). The bill was vetoed by the Governor, and the state’s requirement to follow GAAP still stands.

We also encountered circumstances in which the law has long required a non-GAAP framework for financial reporting, either with or without exception. Arkansas, Nebraska, and Oklahoma require a non-GAAP framework but permit exceptions, for counties, or municipalities, or both. The only state that requires GAAP without exceptions for any type of government entity is New Jersey. All counties, municipalities, and townships in the State of New Jersey follow accounting rules developed by state auditors as far back as the 1930s. Those rules became the foundation of the regulatory basis required of those governments today, which is identified in Section 5:30-6.1 of the New Jersey Administrative Code. However, although that regulatory basis is applied for the financial statements of these governments, subparagraph (c)2 of that section also requires that those governments also apply GAAP in the application of the *notes* to their financial statements.⁶

During our research, we also identified some instances of changes in state-imposed financial reporting requirements. For example, Indiana did not require the use of GAAP by counties and municipalities at the time of GASB’s (2008) prior study of financial reporting requirements. However, beginning in 2020, Indiana counties and municipalities above specified population thresholds to utilize GAAP in order to issue bonds.⁷ In another example, Illinois did not require

⁶ With an allowance to use “. . . the most recent available audited GASB 68 and GASB 75 financial information published by the New Jersey Department of the Treasury, Division of Pensions and Benefits.”

⁷ Indiana Statute §5-1-11.5-4, applicable to counties and municipalities with populations exceeding 100,000 and 75,000, respectively. The statute provides that a waiver may be obtained in some cases.

counties and municipalities to follow GAAP at the time of GASB's (2008) prior study of financial reporting requirements. Beginning in 2019, however, the State of Illinois requires that counties and municipalities previously utilizing GAAP must continue to do so. The intent behind this statutory change seems to be to hold the rate of GAAP utilization among Illinois governments, i.e., we would expect GAAP utilization to stay the same or increase following this change.

Sample Selection

Our sample is comprised of counties, municipalities, and special districts. States are excluded, as all 50 states utilize GAAP as their financial reporting framework.⁸ The maximum sample size of 2,935 represents the counties, municipalities, and special districts included in the 2021 U.S. Census of Governments in the twelve states in which we have identified that there is variability in reporting requirements for all three government types.⁹ These states are Ohio, Nebraska, Indiana, Washington, Kansas, Oregon, New York, Colorado, Georgia, Louisiana, Massachusetts, and Montana. We were unable to locate financial reports for 717 of these governments and nine were removed due to revenue values identified as outliers, either

⁸ We also exclude tribal governments from our sample. The sovereign status of the 574 tribal governments makes obtaining their financial reports more difficult. For example, fewer than 20% of those tribal governments subject to a Single Audit in 2021 included their audited financial statements in their submission to the Federal Audit Clearinghouse, and we would expect it to be less likely that tribal governments not subject to a Single Audit would make their financial statements publicly available. Moreover, we expect the financial reporting framework decision to be different in this sample setting, in part due to tribal businesses sometimes following GAAP as prescribed by the FASB, rather than the GASB. Finally, the incentives to utilize GAAP may be different in this sample setting, as Loftus et al. (2024) note that borrowing costs are higher for tribal governments, after controlling for credit risk, making an examination of GAAP choice in this sample more suitable for a separate study, rather than including these entities in our sample.

⁹ One reason for limiting our sample to only those states where governments of all three types are permitted discretion in selecting a financial reporting framework is that we would not be able to isolate the influence that a requirement for counties to use GAAP on municipalities or special districts in the same state that did not have such a requirement for these other government types.

exceptionally high or low.¹⁰ This resulted in a sample size of 2,209 for which we could generate descriptive statistics.

After collecting financial reporting framework (GAAP or non-GAAP) information for our sample of 2,209 governments, we then exclude 837 governments to derive our sample for purposes of our regression model. First, 817 governments were excluded because governments in five states did not exhibit variability. That is, although Colorado, Georgia, Louisiana, Massachusetts, and Montana permit the use of non-GAAP frameworks, all governments in these states within our sample utilize GAAP.¹¹ Second, we exclude 17 governments because their financial statements do not contain audit opinions. Finally, we exclude three governments that reported less than \$10,000 in revenue. Our final regression model sample consists of 1,372 governments. Table II presents a summary of the sample selection.

Insert Table II here

Regression Model

The logit model we use to examine the determinants of GAAP utilization is as follows:

¹⁰ Of these nine, eight involved extremely low values for revenue, and it is possible that the low values are indicative of misreporting to the U.S. Census Bureau. We also removed New York City from our sample, as its size relative to other governments significantly influenced the descriptive statistics and t-tests.

¹¹ Colorado, Georgia, and Louisiana counties, municipalities, and special districts are categorized as GAAP required with exception. Colorado's counties, municipalities, and special districts requirements contain magnitude thresholds of revenue and expenditure values as their exceptions to GAAP reporting. GAAP is not required if a government's revenues nor expenditures exceed \$100,000 in any fiscal year. The exception to Georgia's counties, municipalities, and special districts' reporting requirements is based on population and expenditure thresholds. Georgia's governments that serve less than 1,500 people or have less than \$550,000 expenditures are exempt from GAAP reporting. Louisiana counties, municipalities, and special districts are exempt from reporting GAAP financial statements if those governments do not issue bonds. Massachusetts counties have no explicit requirement while their municipalities and special districts are categorized as GAAP required with exception. Massachusetts municipalities and special districts are exempt from GAAP reporting if they do not require a Single Audit. Montana counties, municipalities, and special districts have financial reporting requirements that permit choice in the basis of accounting, either GAAP or a small government financial reporting framework.

$$\begin{aligned}
GAAP(1,0) = & \beta_0 + \beta_1 Regulatory\ Framework + \beta_2 Total\ Revenue \\
& + \beta_3 Debt\ Outstanding + \beta_7 MSRB\ Issuer + \beta_6 FAC + \beta_4 Municipality \\
& + \beta_5 Special\ District + \varepsilon
\end{aligned}$$

Of primary interest to us is whether state-level influence is associated with the decision to utilize GAAP. While the counties, municipalities, and special districts in our sample are all in states that permit choice in the selection of a financial reporting framework, some states have a well-developed regulatory framework with significant support for those governments that do not choose to follow GAAP. In addition to the isomorphic pressures this may create, the degree of structural support of an alternative to GAAP may increase the likelihood that a government will utilize that regulatory framework instead of GAAP. We identify states within our sample that provide financial reporting guidance in the form of manuals, policies, or memorandums, as well as templates and schedules for governments to utilize in preparing regulatory basis financial statements. These include Indiana, Kansas, and Washington, and we include a regulatory framework variable equal to 1 if the county, municipality, or special district is in one of these states, 0 otherwise.¹²

We draw upon prior literature in selecting the control variables for our model, focusing on those that are reasonably attainable to facilitate future replications. A primary determinant is size, which we measure with total revenue, using a natural log transformation to address skewness.

¹² Indiana has an Accounting and Financial Reporting Regulation Manual that sets out the requirements for using the prescribed regulatory basis of accounting for local government units and quasi agencies of the State. Kansas provides its local governmental units and auditors with the Kansas Municipal Accounting and Auditing Guidance (KMAAG) to assist in the preparation and audit of the State's prescribed regulatory framework. Washington provides a manual for its Budgeting, Accounting and Reporting System (BARS) cash (regulatory) basis of accounting for its cities, counties, and special purpose districts.

Larger governments are more likely to be subject to external monitoring (e.g., public debt and funding sources) which may increase the demand for the use of GAAP-based financial reports.

Similarly, both the magnitude of debt outstanding, which we also measure using a natural log transformation, and whether the government issues public debt which necessitates filing with the Municipal Securities Rulemaking Board (MSRB) are likely to be associated with GAAP utilization. The favorable debt market conditions, i.e., lower interest costs, associated with GAAP-based financial statements should increase the likelihood that a government with a choice of financial reporting frameworks to utilize GAAP. Moreover, the monitoring associated with the debt market may generally increase pressure to produce GAAP-based financial reports. To control for these factors, we use total debt outstanding from the U.S. Census Bureau and, as a proxy for MSRB oversight, a dichotomous variable that indicates whether a government has been assigned a CUSIP issued, regardless of whether the entity was exempted from disclosures or still has outstanding debt that necessitates these disclosures.¹³

Just as debt market monitoring may increase the likelihood of GAAP utilization, federal oversight associated with grant awards may also be associated with GAAP utilization. We therefore include a dichotomous variable that captures whether the county, municipality, or special district is subject to a Single Audit, applicable for entities expending more than \$750,000 of federal awards in 2021, the year of our sample, and therefore files with the Federal Audit Clearinghouse (FAC).¹⁴ In one specification, we also consider whether the magnitude of federal

¹³ SEC Rule 15c2-12(f)(10) defines an “obligated person” as “any person, including an issuer of municipal securities, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the municipal securities to be sold in the Offering (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).”

¹⁴ We note that the Office of Management and Budget revised the Uniform Guidance in 2024. As part of this guidance, the Single Audit threshold was increased from \$750,000 to \$1,000,000 for periods beginning on or after October 1, 2024.

grant awards, measured as total expenditures of federal grants, is associated with GAAP utilization.

The literature considered whether professionalism within a government's accounting or finance function is positively associated with the likelihood of a government to utilize GAAP. For example, Carroll and Marlowe (2009) include the presence of a professional administrator and the presence of a chief financial officer in their model of the determinants of GAAP, and Khumawala et al. (2014) included variables that captured whether the governments in their sample had a degreed accountant on staff and whether an outside CPA was engaged to prepare the financial statements. However, the variables in the two noted studies were not statistically significant and the inclusion of these variables in our study would decrease our ability to efficiently replicate the study in the future.

IV. EMPIRICAL RESULTS

Descriptive Statistics

Table III presents descriptive statistics for (1) the full sample of 2,209 governments for which we captured financial reporting framework information (Panel A), (2) the subsample of 1,372 governments included in our regression model (Panel B), and (3) a further reduced subsample for the 615 governments within that population subject to a Single Audit (Panel C).

Insert Table III here

TOTAL REVENUE has a mean of \$112.2 million, \$116.0 million, and \$208.7 million, in Panels A, B, and C, respectively. We note that the increases in the mean from Panel A to Panel B is partially attributable to the removal of governments with revenues under \$10,000.

Furthermore, we expect the Panel C mean to be higher, as governments subject to a Single Audit

are likely larger, as they receive and expend federal funding above the specified threshold. We also note statistically significant differences in the means of the two groups in each Panel—GAAP versus non-GAAP. For example, within the subsample of 1,372 governments in Panel B, *TOTAL REVENUE* for governments utilizing GAAP and those not utilizing GAAP within that population are \$158.2 million and \$31.5 million, respectively. Finally, we note that all three samples in our study have a larger mean of *TOTAL REVENUE* than that of \$56.6 million reported by prior research (Khumawala et al. 2014). However, we note that the higher revenue mean in all three panels, when compared to prior research, is partially attributable to two factors—first, the impact of inflation, population growth, and government spending between the years of the data collected in our research and prior research (2021 and the period 2006–2008, respectively) and secondly, that our research included special districts and excluded school districts, whereas prior research only included school districts (and we note that special districts in our sample generally have a higher total revenue than the school districts reviewed in prior research when adjusted for inflation).

DEBT OUTSTANDING has a mean of \$115.5 million, \$124.3 million, and \$197.6 million, in Panels A, B, and C, respectively. Furthermore, the majority of the governments in our sample issue public debt, as indicated by *MSRB ISSUER* means of 67.00%, 74.20%, and 80.81% in the respective panels. Similar to our findings related to total revenues, we note that the increases in the outstanding debt and MSRB percentage from Panel A to Panel B is partially attributable to the removal of governments with revenues less than \$10,000 (i.e., very small governments are not as likely to issue public debt). Furthermore, the mean in Panel C for governments subject to the Single Audit is also higher, as these larger governments likely have an increased capacity for issuing and carrying public debt. Similar to our *TOTAL REVENUE* t-tests, we find statistically

significant differences for *DEBT OUTSTANDING* between those governments utilizing GAAP and those not utilizing GAAP. For example, in Panel B, *DEBT OUTSTANDING* is \$176.5 million for GAAP-utilizing governments and \$19.7 million for non-GAAP-utilizing governments. However, we do not find a statistically significant difference between governments utilizing GAAP and those not utilizing GAAP for *MSRB ISSUER*—74.97% versus 72.65%, respectively. Finally, we note that prior studies consider only one debt variable each, such as: (1) the magnitude of original debt issuances (Khumawala et al. 2014) and (2) whether a government has outstanding debt (Carroll and Marlowe 2009).

Table III also provides information about the composition of our samples. Municipalities are the most common form of government in each of our three samples, 40.29%, 43.37%, and 41.95%, in Panels A, B, and C, respectively. This is fairly consistent with the 2021 Census of Governments and slightly lower than the 50.98% reported in Khumawala et al. (2014). In the first two samples, the next largest type of government is special districts, which represents 40.02%, 37.90%, and 21.63% of the samples in Panels A, B, and C, respectively. The lower percentage in the FAC sample, Panel C, suggests that special districts do not typically have the magnitude of federal funding that would result in a Single Audit.

In Panels A and B, which include governments that are subject to a Single Audit, as well as those that are not, 47.71% and 44.83% are subject to Single Audit, respectively. Among the FAC sample, Panel C, we note the average amount of expenditures of federal grant awards is \$24.8 million, where the difference between those that follow GAAP and those that do not is significant (average federal expenditures are \$32.2 million [\$2.9 million] for GAAP [non-GAAP] governments).

Governments with access to a *REGULATORY FRAMEWORK* represent 26.48%, 42.49%, and 43.74% of the samples in Panels A, B, and C, respectively.

We note that our sample differs from Carroll and Marlowe (2009), as their sample period was 2002 and only includes municipal governments and from Khumawala et al. (2009) whose sample period covers the 2006 to 2008 period, excludes special districts, and includes governments with lower revenue.

Regression Results

Our logit regression results are displayed in Table IV, with Panel A depicting the results for the final sample of counties, municipalities, and special districts in states with variability in financial reporting frameworks ($n = 1,372$) and Panel B for the subsample of these governments that are subject to a Single Audit (FAC subsample $n = 482$, which is less than the maximum 615 identified in Table III Panel C, as special districts are omitted as they all report utilizing GAAP).

Insert Table IV. a. here

Insert Table IV. b. here

The first set of columns in each panel presents the regression results including only the control variables, and the second set introduces the regulatory framework variable. In Panel A, *TOTAL REVENUE*, *MSRB ISSUER*, *FAC*, *MUNICIPALITY*, and *SPECIAL DISTRICT* variables are all significant in predicting utilization of GAAP. The interpretation of the statistical significance of the two entity type variables, *MUNICIPALITY* and *SPECIAL DISTRICT*, is relative to the omitted category, *COUNTY*, i.e., municipalities and special districts are more likely to utilize GAAP, ceteris paribus. *DEBT OUTSTANDING* is not statistically significant as a determinant of GAAP utilization. The pseudo- R^2 for this model is 0.206. When *REGULATORY*

FRAMEWORK is introduced in the second set of columns, the pseudo- R^2 increases to 0.365, and the coefficient is negative and statistically significant, suggesting the presence of a well-structured alternative to GAAP decreases the likelihood that governments will utilize GAAP. The inclusion of this variable therefore improves the explanatory power of the model. We note, however, that from the first to the second logit regression, *MSRB ISSUER* loses significance, while *DEBT OUTSTANDING* becomes significant in predicting GAAP utilization.¹⁵

Results are similar among the subsample of FAC-filing governments, as depicted in Panel B, where *TOTAL REVENUE*, *MSRB ISSUER*, *FAC TOTAL EXPENDITURES*, and *MUNICIPALITY* variables are all significant determinants of GAAP utilization. Moreover, *REGULATORY FRAMEWORK* is also significant and negative, consistent with our expectation that a well-structured alternative to GAAP decreases the likelihood of GAAP utilization. Similar to the increase in explanatory power noted in Panel A, the pseudo- R^2 increases from 0.369 to 0.547. Also similar to Panel A, *MSRB ISSUER* loses significance, while *DEBT OUTSTANDING* becomes significant. We note that the highest pairwise correlation between variables in our models is 0.55, between *MSRB ISSUER* and *DEBT OUTSTANDING*, mitigating any potential multicollinearity concerns.

Finally, we calculate an odds ratio to determine the marginal effects associated with the presence of a regulatory framework. Using a coefficient estimate of -2.50 from Table IV, $\exp(-2.50)$ is equal to 0.08, which results in an odds ratio of 0.08/1. Conversely, the odds ratio associated with $\exp(2.50)$, is 12.24, suggesting governments in states *without* a well-developed regulatory framework are more than 12 times as likely to utilize GAAP. Within our FAC sample,

¹⁵ *MSRB ISSUER* and *DEBT OUTSTANDING* are significantly correlated, $r = 0.5514$, potentially contributing to this result. Because at least one debt-related variable is statistically significant in each model, the inference that debt is associated with the decision to utilize GAAP is supported.

this effect is even more pronounced, with the odds ratio suggesting that governments in states without a well-developed financial reporting framework are more than 36 times as likely to utilize GAAP. Looking forward, this may suggest the need to follow state developments related to financial reporting frameworks, as states developing alternative financial reporting frameworks may be a leading indicator of decreases in GAAP utilization rates. Moreover, we might also expect governments in states that invest in supporting GAAP utilization to be more likely to choose GAAP, even when state statutes and codes permit other financial reporting frameworks and that these efforts may be associated with increases in GAAP utilization rates.

Testing the Model

In post-estimation tests, we evaluated the predictive ability of the logit regression models. The resulting classification findings are displayed in Table V Panels A (full model $n = 1,372$) and B (FAC subsample $n = 482$).

Insert Table V here

As depicted, the model is able to correctly classify 82.73% of the observations in our full sample and 87.97% in our FAC subsample. In both cases, the model better predicts GAAP when GAAP is utilized than it predicts non-GAAP when a non-GAAP framework is utilized.

GAAP Utilization Rate and Extrapolation

Although the primary focus of our study is the evaluation of GAAP determinants using a logit regression model, we also performed additional analyses to estimate GAAP utilization rates. The percentages of governments in our samples utilizing GAAP are 78.8% (Table 3 Panel A, 1,740 divided by 2,209), 66.7% (Table 3 Panel B, 915 divided by 1,372), and 74.8% (Table 3 Panel C, 460 divided by 615). In a separate analysis, we project GAAP utilization rates more

broadly and by government type, drawing upon additional information about governments excluded from our sample and information about state requirements. These projected rates, based on our underlying assumptions, can be evaluated in future research to determine whether GAAP utilization is increasing, decreasing, or remaining stable. Using the full sample in conjunction with our understanding of the state statutes, administrative codes, and published policies collected as a part of our first objective, we project separate ranges of expected GAAP utilization rates to the broader population of counties and municipalities. Based on this analysis, we project that, for the 3,031 counties and 19,490 municipalities identified by the U.S. Census Bureau in 2021, GAAP utilization ranges from 77.03% to 78.96%, and 66.51% to 73.52%, respectively.

The conservative end of the range differs from the optimistic end based on the assumptions made for the governments with unavailable data from our original sample ($n = 2,935$). We were unable to locate financial statements for 717 of these governments. For our conservative point estimate, we assume these 717 governments are non-GAAP, as it may be more likely that missing financial reports are an indication that a government is either not preparing GAAP-based financial statements or the government is not preparing financial statements at all. For our optimistic point estimate, we extrapolated GAAP utilization rates based on the GAAP utilization rates observed within the collected data.

The ranges projected for counties and municipalities are generally consistent with GAAP utilization estimates from prior academic and GASB studies. We note that a separate projected range for GAAP utilization among special districts, a unit of government far less studied, is not provided here despite their inclusion in our sample for the purposes of regression. This is partially because a significant portion of the 717 governments for which we are unable to locate financial statements are special districts, which in turn results in a much larger range (between

the conservative and optimistic rates) than those projected for counties and municipalities. Furthermore, our sample selection only includes 12 states, and GAAP utilization may vary significantly among special district governments in the broader cross-section (therefore indicating that would be unlikely that a projected utilization rate among the population of special districts would be at the optimistic end of such a range).

Evaluating changes in GAAP utilization rates over time is challenging. The oldest GAAP utilization rates we found are from 1988, where Harris (1989) reports 74% of governments surveyed utilize GAAP, generally consistent with our current findings. However, samples and methods have varied, limiting our ability to evaluate changes in GAAP utilization. In general, our GAAP utilization rates from Figure II and our projected range here are also comparable to previous studies, both GASB-conducted and academic. Based on a survey of states, counties, municipalities, school districts, and special districts, the GASB estimated the GAAP utilization for state and local governments to be between 67.3% and 71.5% (GASB 2008). Using this same survey-based data, Khumawala et al. (2014) estimate a 71% GAAP utilization rate. Carroll and Marlowe (2009), using survey-based data from Illinois local governments, estimate an 80.27% GAAP utilization rate, based on whether governments use the modified accrual basis of accounting to prepare their governmental fund statements. Despite the general consistency in GAAP utilization over time, we would like to replicate our study using the same method and comparable samples going forward to be able to more definitively evaluate changes in GAAP utilization over time.

Insert Figure II here

V. CONCLUSIONS AND REPLICABILITY

This study provides an updated analysis of the factors influencing GAAP utilization among state and local governments, building upon prior research while incorporating new variables such as the presence of a well-developed alternative framework, in addition to providing a comprehensive analysis of state financial reporting requirements for states, counties, municipalities, and the special districts for which we could identify relevant statutes. Our regression model reveals that key determinants include total revenue, debt outstanding, and governments in the FAC, which is consistent with our expectations and those of prior studies. We also find that GAAP utilization is more prevalent for municipalities and special districts than counties given optionality in financial reporting. The presence of a well-developed alternative to GAAP substantially decreases the likelihood of adopting GAAP, suggesting regulatory frameworks have a critical role in shaping governmental accounting practices.

Previous research, particularly by Khumawala et al. (2014) and Carroll and Marlowe (2009), deployed different methodologies with unique strengths. In this study, identifying state-level requirements prior to developing the regression allowed a focused analysis of which governments utilized GAAP in states with discretion in selecting a financial reporting framework. The inclusion of a variable reflecting the use of an alternative financial reporting framework has allowed us to identify a statistically significant factor in the decision to adopt GAAP not considered in prior literature. Using archival data, in particular the audit report of state and local governments, complements the prior survey-based work and has the benefit of mitigating concerns with social desirability bias. Although not the primary focus of our study, we also contribute an updated estimate of GAAP utilization, 61.83% to 84.92%, which is fairly consistent with previous studies and providing some indication that GAAP utilization may not have changed significantly over the past 20 years. Finally, our regression model is designed for

replicability, allowing for future assessment of GAAP utilization. This is particularly important as the rulemaking associated with the Financial Data Transparency Act of 2022 may require an assessment of whether and how a taxonomy can accommodate GAAP, as well as non-GAAP, financial reporting frameworks. Additionally, our results underscore the need for future work concentrated on monitoring changes in state financial reporting requirements and assessments of GAAP utilization among smaller governments for which financial statements are less readily available.

REFERENCES

- Baber, W. R., & Gore, A. K. (2008). Consequences of GAAP disclosure regulation: Evidence from municipal debt issues. *The Accounting Review*, 83(3), 565–591.
- Baber, W., Beck, A., & Koester, A. (2024). Accounting standardization and separation in the municipal debt market: Evidence from GASB 34. *Accounting Review*, 99(4), 29–56. <https://doi.org/10.2308/TAR-2021-0472>
- Benson, E. D., Barry, M. R., Raman, K. K., The effect of voluntary GAAP compliance and financial disclosure on governmental borrowing costs. (1991). *Journal of Accounting, Auditing & Finance*, 6(3), 320–324. <https://doi.org/10.1177/0148558X9100600302>
- Carpenter, V. L., & Feroz, E. H. (1990). The decision to adopt GAAP: A case study of the commonwealth of Kentucky. *Accounting Horizons*, 4(2), 67–78.
- Carpenter, V. L., & Feroz, E. H. (2001). Institutional theory and accounting rule choice: An analysis of four US state governments' decisions to adopt generally accepted accounting principles. *Accounting, Organizations and Society*, 26(7–8). [https://doi.org/10.1016/S0361-3682\(00\)00038-6](https://doi.org/10.1016/S0361-3682(00)00038-6)
- Carroll, D. A., & Marlowe, J. (2009). Is there a 'GAAP gap'? A politico-economic model of municipal accounting policy. *Journal of Public Budgeting, Accounting & Financial Management*, 21(4), 501–523. <https://doi.org/10.1108/JPBAFM-21-04-2009-B001>
- Collin, S.-O. Y., Tagesson, T., Andersson, A., Cato, J., & Hansson, K. (2009). Explaining the choice of accounting standards in municipal corporations: Positive accounting theory and institutional theory as competitive or concurrent theories. *Critical Perspectives on Accounting*, 20(2), 141–174. <https://doi.org/10.1016/j.cpa.2008.09.003>
- Connecticut General Assembly. (2007). An Act Concerning the Implementation of Generally Accepted Accounting Principles (GAAP). [sHB-7338] <https://www.cga.ct.gov/2007/FN/2007HB-07338-R000781-FN.htm>
- Fairchild, L. M., & Koch, T. W. (1998). The impact of state disclosure requirements on municipal yields. *National Tax Journal*, 51(4), 733–753. <https://doi.org/10.1086/ntj41789365>
- Gore, A. K., 2004. Does mandatory disclosure reduce the cost of capital? Evidence from bonds. *Working paper*, Lundquist College of Business, University of Oregon.
- Gore, A. K., Sachs, K., & Trzcinka, C. (2004). Financial disclosure and bond insurance. *Journal of Law and Economics*, 47(Issue 1), 275–306.
- Governmental Accounting Standards Board. (1987). *Research Report: Financial Reporting Practices of Local Governments*.
- Governmental Accounting Standards Board. (1999). *Statement 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*
- Governmental Accounting Standards Board. (2008). *Research Brief: State and Local Government Use of Generally Accepted Accounting Principles for General Purpose External Financial Reporting*
- Harris, L., and Associates, Inc. (1989). *A Study of the Attitudes Toward and an Assessment of the Governmental Accounting Standards Board*. Financial Accounting Foundation.
- Illinois General Assembly. (2018) Public Act 100-0837. [SB2638] <https://www.ilga.gov/legislation/publicacts/fulltext.asp?Name=100-0837>
- Ingram, R. W. (1984). Economic Incentives and the Choice of State Government Accounting Practices. *Journal of Accounting Research*, 22(1), 126–144. <https://doi.org/10.2307/2490704>

- Jacob, K. (2004). Credits-rating effects of GASB 34. *PM. Public Management*.
- Khumawala, S., Marlowe, J., & Gordon Neely, D. (2014). Accounting professionalism and local government GAAP adoption: A national study. *Journal of Public Budgeting, Accounting & Financial Management*, 26(2), 292–312. <https://doi.org/10.1108/JPBAFM-26-02-2014-B003>
- Kim, J., McDonald, B. D., & Lee, J. (2018). The nexus of state and local capacity in vertical policy diffusion. *American Review of Public Administration*, 48(2), 188–200. <https://doi.org/10.1177/0275074016675966>
- Loftus, S., McCoy, S. S., & Zhang, R. Z. (2024) Native American governments' borrowing costs: Evidence from municipal bond markets. *Working paper*.
- National Association of State Auditors, Comptrollers, and Treasurers. (2021). *Auditing in the States*
- Roybark, H. M., Coffman, E. N., & Previts, G. J. (2012). The first quarter century of the GASB (1984-2009): A perspective on standard setting (Part One). *Abacus*, 48(1), 1–30. <https://doi.org/10.1111/j.1467-6281.2012.00355.x>
- S&P Global. (2023). *2023 Update of Institutional Framework for U.S. Local Governments*.
- St. Clair, T., 2019. The heterogeneous effects of accrual accounting: Evidence from municipal borrowers. *Working paper*, Wagner School of Public Service, New York University.
- Texas Legislature, 2007. An Act Relating to Financial Accounting and Reporting for this State and Political Subdivisions of this State. [HB 2365] https://lrl.texas.gov/LASDOCS/80R/HB2365/HB2365_80R.pdf

Table I. a.

Summary of Requirements for States										
	Requirement Category						Source of Requirement			
State of:	Non-GAAP Required	Non-GAAP Required With Exception	No Requirement	GAAP Required With Exception	GAAP Required		Reporting Statute	Audit Statute	Policy	State Confirmation
Alabama					X	X				
Alaska					X	X				
Arizona					X	X				
Arkansas					X	X				
California					X	X				
Colorado					X	X				
Connecticut					X	X				
Delaware					X			X		
Florida					X	X				
Georgia					X	X				
Hawaii					X			X		
Idaho					X	X				
Illinois					X	X				
Indiana					X			X		
Iowa					X	X				
Kansas					X			X		
Kentucky					X	X				
Louisiana					X	X				
Maine					X	X				
Maryland					X			X		
Massachusetts					X	X				
Michigan					X	X				
Minnesota					X	X				
Mississippi					X	X				
Missouri					X		X			
Montana					X	X				
Nebraska					X	X				
Nevada					X	X				
New Hampshire					X	X				
New Jersey					X			X		
New Mexico					X	X				
New York					X	X				
North Carolina					X	X				
North Dakota					X			X		
Ohio					X	X				
Oklahoma					X	X				
Oregon					X	X				
Pennsylvania					X	X				
Rhode Island			X			X				
South Carolina					X	X				
South Dakota					X	X				
Tennessee					X	X				
Texas					X	X				
Utah					X	X				
Vermont					X	X				
Virginia					X	X				
Washington					X	X				
West Virginia					X	X				
Wisconsin			X						X	
Wyoming					X	X				

Table I. b.

Summary of Requirements for Counties										
	Requirement Category						Source of Requirement			
	Non-GAAP Required	Non-GAAP Required With Exception	No Requirement	GAAP Required With Exception	GAAP Required		Reporting Statute	Audit Statute	Policy	State Confirmation
State of:										
Alabama					X			X		
Alaska			X						X	
Arizona					X	X				
Arkansas		X					X			
California					X	X				
Colorado				X			X			
Connecticut ¹										
Delaware				X			X			
Florida					X		X			
Georgia				X			X			
Hawaii			X						X	
Idaho					X	X				
Illinois				X			X			
Indiana				X		X				
Iowa					X	X				
Kansas				X		X				
Kentucky			X					X		
Louisiana				X			X			
Maine					X		X			
Maryland					X		X			
Massachusetts			X			X				
Michigan					X		X			
Minnesota					X			X		
Mississippi					X			X		
Missouri			X						X	
Montana			X			X				
Nebraska		X				X				
Nevada					X		X			
New Hampshire					X	X				
New Jersey	X							X		
New Mexico					X		X			
New York			X					X		
North Carolina					X		X			
North Dakota					X	X				
Ohio			X			X				
Oklahoma		X					X			
Oregon			X			X				
Pennsylvania					X	X				
Rhode Island ¹										
South Carolina			X						X	
South Dakota			X				X			
Tennessee					X	X				
Texas				X		X				
Utah				X				X		
Vermont			X						X	
Virginia				X				X		
Washington			X					X		
West Virginia					X			X		
Wisconsin				X			X			
Wyoming					X	X				

¹ Counties are not units of government in the states of Connecticut or Rhode Island.

Table I. c.

Summary of Requirements for Municipalities										
	Requirement Category						Source of Requirement			
	Non-GAAP Required	Non-GAAP Required With Exception	No Requirement	GAAP Required With Exception	GAAP Required		Reporting Statute	Audit Statute	Policy	State Confirmation
State of:										
Alabama				X				X		
Alaska			X						X	
Arizona					X	X				
Arkansas		X					X			
California				X		X				
Colorado				X			X			
Connecticut				X			X			
Delaware			X						X	
Florida				X			X			
Georgia				X			X			
Hawaii			X						X	
Idaho			X					X		
Illinois				X			X			
Indiana				X		X				
Iowa			X				X			
Kansas				X		X				
Kentucky					X	X				
Louisiana				X			X			
Maine					X	X				
Maryland					X		X			
Massachusetts				X				X		
Michigan					X		X			
Minnesota				X				X		
Mississippi			X					X		
Missouri			X			X				
Montana			X			X				
Nebraska			X							
Nevada					X		X			
New Hampshire					X	X				
New Jersey	X							X		
New Mexico					X		X			
New York			X					X		
North Carolina					X		X			
North Dakota			X						X	
Ohio			X			X				
Oklahoma			X						X	
Oregon			X			X				
Pennsylvania			X			X				
Rhode Island					X	X				
South Carolina			X						X	
South Dakota			X				X			
Tennessee					X	X				
Texas			X						X	
Utah				X				X		
Vermont			X						X	
Virginia				X				X		
Washington			X					X		
West Virginia					X			X		
Wisconsin				X			X			
Wyoming					X	X				

Table I. d.

Summary of Requirements for Special Districts										
	Requirement Category						Source of Requirement			
	Non-GAAP Required	Non-GAAP Required With Exception	No Requirement	GAAP Required With Exception	GAAP Required		Reporting Statute	Audit Statute	Policy	State Confirmation
State of:										
Alabama ¹										
Alaska ¹										
Arizona			X			X				
Arkansas ¹										
California					X			X		
Colorado				X			X			
Connecticut ¹										
Delaware ¹										
Florida				X			X			
Georgia				X			X			
Hawaii ¹										
Idaho			X					X		
Illinois ²										
Indiana				X				X		
Iowa			X				X			
Kansas				X		X				
Kentucky ¹										
Louisiana				X			X			
Maine					X	X				
Maryland					X		X			
Massachusetts				X				X		
Michigan					X		X			
Minnesota			X					X		
Mississippi ¹										
Missouri ²										
Montana			X			X				
Nebraska			X			X				
Nevada					X		X			
New Hampshire ²										
New Jersey					X	X				
New Mexico					X		X			
New York			X					X		
North Carolina					X		X			
North Dakota			X						X	
Ohio			X			X				
Oklahoma ¹										
Oregon			X			X				
Pennsylvania ²										
Rhode Island ¹										
South Carolina ¹										
South Dakota ¹										
Tennessee					X		X			
Texas ¹										
Utah				X				X		
Vermont			X						X	
Virginia ¹										
Washington			X					X		
West Virginia					X			X		
Wisconsin ¹										
Wyoming ¹										

¹ Reporting requirement not found.

² Multiple reporting requirements by type of Special District.

Table II

Sample Reconciliation								
	Panel A Reconciliation				Panel B Reconciliation			
State of:	Beginning Sample	Governments with Unavailable Data	Governments with Extreme Revenue Values	Panel A Ending Sample	States without Variability	Governments with No Audit Opinion	Governments with less than \$10,000 in Revenue	Panel B Ending Sample
Ohio	363	(58)	(2)	303	-	(10)	-	293
Nebraska	306	(39)	-	267	-	-	(3)	264
Indiana	296	(70)	-	226	-	(1)	-	225
Washington	225	(42)	-	183	-	(1)	-	182
Kansas	232	(54)	(2)	176	-	-	-	176
Oregon	176	(44)	(1)	131	-	(4)	-	127
New York	167	(59)	(2)	106	-	(1)	-	105
Colorado	426	(109)	-	317	(317)	-	-	-
Georgia	274	(76)	(1)	197	(197)	-	-	-
Louisiana	167	(8)	(1)	158	(158)	-	-	-
Massachusetts	130	(55)	-	75	(75)	-	-	-
Montana	173	(103)	-	70	(70)	-	-	-
Grand Total	2,935	(717)	(9)	2,209	(817)	(17)	(3)	1,372

Table III – Descriptive Statistics

Panel A: Full Sample (n = 2,209)								
Descriptive Statistics					Two Sample T-Test			
Variables	Mean	Std. dev.	Min	Max	GAAP Mean (n=1,740)	Non-GAAP Mean (n=469)	Difference	Significance
<i>TOTAL REVENUE (in thousands)</i>	\$112,162	\$357,070	\$1	\$5,021,620	\$134,102	\$30,765	\$103,338	***
<i>DEBT OUTSTANDING (in thousands)</i>	\$115,517	\$714,299	\$0	\$25,100,000	\$141,444	\$19,328	\$122,115	***
% <i>MSRB ISSUER</i>	67.00%	47.03%	0	1	65.92%	71.00%	-5.08%	**
% <i>FAC</i>	47.71%	49.96%	0	1	51.67%	33.05%	18.62%	***
% <i>COUNTY</i>	19.69%	39.78%	0	1	18.62%	23.67%	-5.05%	**
% <i>MUNICIPALITY</i>	40.29%	49.06%	0	1	36.26%	55.22%	-18.96%	***
% <i>SPECIAL DISTRICT</i>	40.02%	49.00%	0	1	45.11%	21.11%	24.01%	***
% <i>BUCKET 2</i>	1.40%	11.77%	0	1	0.17%	5.97%	-5.80%	***
% <i>BUCKET 3</i>	46.72%	49.90%	0	1	50.17%	33.90%	16.27%	***
% <i>BUCKET 4</i>	51.88%	49.98%	0	1	49.66%	60.13%	-10.47%	***
% <i>REGULATORY FRAMEWORK</i>	26.48%	44.13%	0	1	15.23%	68.23%	-53.00%	***

Panel B: Sample for Logistic Regression (n = 1,372)								
Descriptive Statistics					Two Sample T-Test			
Variables	Mean	Std. dev.	Min	Max	GAAP Mean (n=915)	Non-GAAP Mean (n=457)	Difference	Significance
<i>TOTAL REVENUE (in thousands)</i>	\$116,035	\$386,746	\$21	\$5,021,620	\$158,249	\$31,515	\$126,734	***
<i>DEBT OUTSTANDING (in thousands)</i>	\$124,286	\$809,725	\$1	\$25,100,000	\$176,529	\$19,686	\$156,843	***
% <i>MSRB ISSUER</i>	74.20%	43.77%	0	1	74.97%	72.65%	2.32%	<i>ns</i>
% <i>FAC</i>	44.83%	49.75%	0	1	50.27%	33.92%	16.36%	***
% <i>COUNTY</i>	18.73%	39.03%	0	1	15.96%	24.29%	-8.33%	***
% <i>MUNICIPALITY</i>	43.37%	49.58%	0	1	37.05%	56.02%	-18.97%	***
% <i>SPECIAL DISTRICT</i>	37.90%	48.53%	0	1	46.99%	19.69%	27.30%	***
% <i>BUCKET 2</i>	2.26%	14.87%	0	1	0.33%	6.13%	-5.80%	***
% <i>BUCKET 3</i>	68.51%	46.46%	0	1	86.56%	32.39%	54.17%	***
% <i>BUCKET 4</i>	29.23%	45.50%	0	1	13.11%	61.49%	-48.37%	***
% <i>REGULATORY FRAMEWORK</i>	42.49%	49.45%	0	1	28.85%	69.80%	-40.95%	***

Panel C: Governments Subject to Single Audit Sample (n=615)								
Descriptive Statistics					Two Sample T-Test			
Variables	Mean	Std. dev.	Min	Max	GAAP Mean (n=460)	Non-GAAP Mean (n=155)	Difference	Significance
<i>TOTAL REVENUE (in thousands)</i>	\$208,731	\$518,894	\$323	\$5,021,620	\$257,862	\$62,925	\$194,937	***
<i>DEBT OUTSTANDING (in thousands)</i>	\$197,632	\$641,617	\$1	\$6,206,129	\$254,423	\$29,090	\$225,333	***
% <i>MSRB ISSUER</i>	80.81%	39.41%	0	1	80.87%	80.65%	0.22%	<i>ns</i>
<i>FAC TOTAL FEDERAL EXPENDITURES (in thousands)</i>	\$24,800	\$70,800	\$756	\$934,000	\$32,200	\$2,886	\$29,314	***
% <i>COUNTY</i>	36.42%	48.16%	0	1	30.43%	54.19%	-23.76%	***
% <i>MUNICIPALITY</i>	41.95%	49.39%	0	1	40.65%	45.81%	-5.15%	<i>ns</i>
% <i>SPECIAL DISTRICT</i>	21.63%	41.20%	0	1	28.91%	0.00%	28.91%	***
% <i>BUCKET 2</i>	3.25%	17.75%	0	1	0.65%	10.97%	-10.32%	***
% <i>BUCKET 3</i>	68.29%	46.57%	0	1	83.26%	23.87%	59.39%	***
% <i>BUCKET 4</i>	28.46%	45.16%	0	1	16.09%	65.16%	-49.07%	***
% <i>REGULATORY FRAMEWORK</i>	43.74%	49.65%	0	1	33.04%	75.48%	-42.44%	***

Note: Statistical significance is indicated by ***, **, and *, for significance at the 0.01, 0.05, and 0.10 levels, respectively.

Table IV. a.

Regression Model Results				
Panel A: Determinants of GAAP Utilization				
Variables	Coefficient	Significance		
Log of <i>TOTAL REVENUE</i>	0.49	***	0.65	***
Log of <i>DEBT OUTSTANDING</i>	0.03	<i>ns</i>	0.08	***
<i>MSRB ISSUER</i>	0.45	**	0.01	<i>ns</i>
<i>FAC</i>	0.77	***	0.94	***
<i>MUNICIPALITY</i>	0.90	***	1.20	***
<i>SPECIAL DISTRICT</i>	3.54	***	4.17	***
<i>REGULATORY FRAMEWORK</i>	N/A	N/A	-2.50	***
<i>Constant</i>	-6.61	***	-7.48	***
Pseudo R-squared	0.206		0.365	
Number of Observations	1,372		1,372	

Regression Model Results				
Panel B: FAC Subsample				
Variables	Coefficient	Significance		
Log of <i>TOTAL REVENUE</i>	0.76	***	1.48	***
Log of <i>DEBT OUTSTANDING</i>	0.02	<i>ns</i>	0.18	**
<i>MSRB ISSUER</i>	0.90	*	0.39	<i>ns</i>
Log of <i>FAC TOTAL FEDERAL EXPENDITURES</i>	1.09	***	0.87	***
<i>MUNICIPALITY</i>	1.84	***	1.94	***
<i>REGULATORY FRAMEWORK</i>	N/A	N/A	-3.41	***
<i>Constant</i>	-26.20	***	-30.19	***
Pseudo R-squared	0.369		0.547	
Number of Observations	482		482	

Note: Statistical significance is indicated by ***, **, and *, for significance at the 0.01, 0.05, and 0.10 levels, respectively.

Table IV. b.

Variable Definitions		
Variable Name	Definition	Source of Data
GAAP Variable	1 if the reporting government utilizes GAAP; 0 otherwise.	Hand collected from government's audit opinion letter in the annual comprehensive financial report.
Regulatory Framework	1 if the reporting government is in Indiana, Kansas, or Washington where a formal regulatory framework alternative is provided; 0 otherwise.	Hand collected from state accounting policies and procedure manuals.
Total Revenue	Revenue reported by the government.	U.S. Census Bureau
Debt Outstanding	Debt outstanding reported by the government.	U.S. Census Bureau
MSRB Issuer	1 if the reporting government issues public debt subject to filing continuing disclosures with the MSRB; 0 otherwise.	MSRB
FAC Variable	1 if the reporting government is subject to a Single Audit; 0 otherwise.	Federal Audit Clearinghouse
FAC Total Federal Expenditures	Federal expenditures made by governments in the federal audit clearinghouse.	Federal Audit Clearinghouse
County Variable	1 if the reporting government is a county; 0 otherwise.	U.S. Census Bureau
Municipality Variable	1 if the reporting government is a city; 0 otherwise.	U.S. Census Bureau
Special District Variable	1 if the reporting government is a special district; 0 otherwise.	U.S. Census Bureau
Bucket 2	1 if the reporting government is in a state where a non-GAAP basis is required with exceptions; 0 otherwise.	Hand collected from state reporting statute, audit statute, or policy.
Bucket 3	1 if the reporting government is in a state where no basis is required; 0 otherwise.	Hand collected from state reporting statute, audit statute, or policy.
Bucket 4	1 if the reporting government is in a state where GAAP basis is required with exceptions; 0 otherwise.	Hand collected from state reporting statute, audit statute, or policy.

Table V

Panel A: Classification Table			
	GAAP	Non-GAAP	% Total
Predicted GAAP	827	149	84.73%
Predicted Non-GAAP	88	308	77.78%
% Total	90.38%	67.40%	
Correctly Classified			82.73%

Panel B: Classification Table - FAC Subsample			
	GAAP	Non-GAAP	% Total
Predicted GAAP	303	34	89.91%
Predicted Non-GAAP	24	121	83.45%
% Total	92.66%	78.06%	
Correctly Classified			87.97%

Figure I

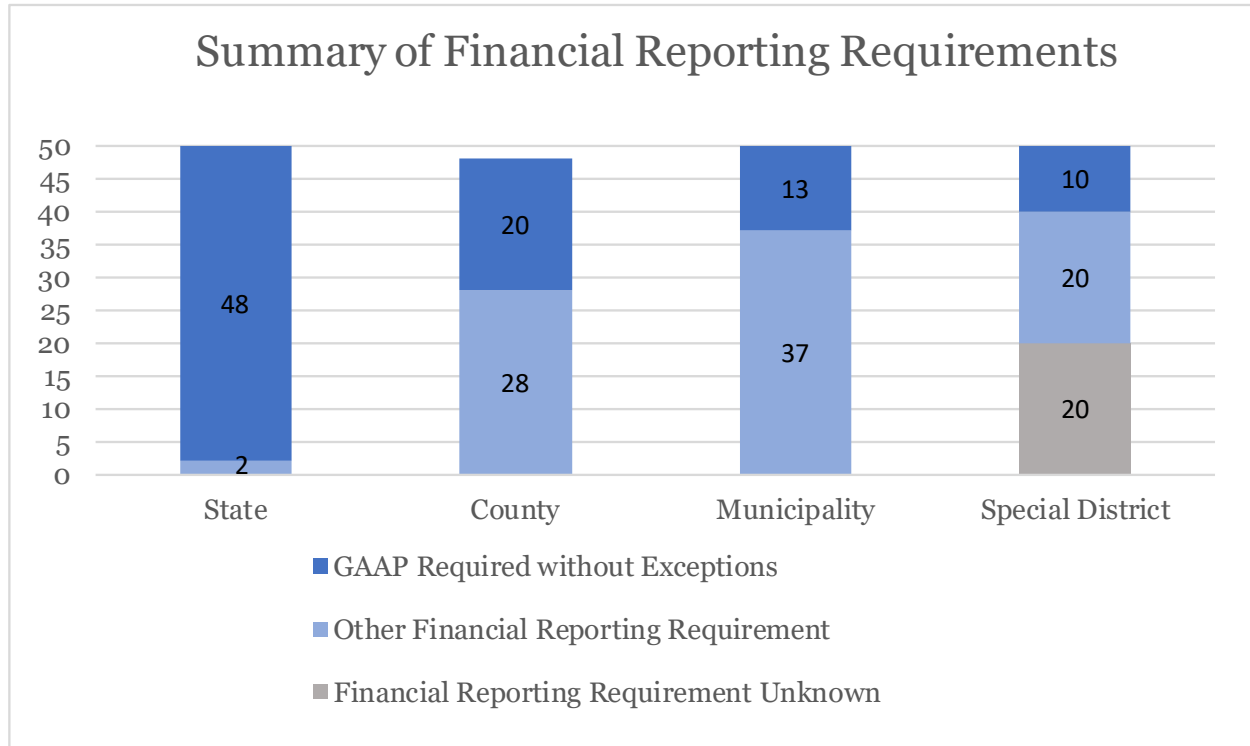


Figure II – Projection of GAAP Utilization and Comparison with Other Studies

