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The Devil Is In the (Financial Reporting) Details.

States and localities don't have the manpower to handle the current load of burdensome financial reporting requirements—let alone the series of new ones announced yearly. They're pushing back.

"Our 2023 financial report is 311 pages long," says Ken Guy, finance director for King County, Washington. "I compare that to Boeing's 2023 financial report, [which] is 141 pages. Our financial report is twice as large, and I have to ask, why is that?"

Guy is one of a growing number of state and local financial officials who are distraught over what they see as an avalanche of new accounting requirements every year for their annual comprehensive financial reports. This vast sea of data and documentation is required by the Governmental Accounting Standards Board, or GASB, to receive a clean audit based on generally accepted accounting principles.

"GASB has been hitting us hard," says Sharon Edmundson, director of municipal finance programs for the North Carolina League of Municipalities. "They've had some significant statements roll out practically every year, which require a great deal of work."

What's more, the annual reports aren't the only financial documents that states and localities must prepare. "The state of California requires an additional report—as do other states—for the state comptroller to oversee governments' fiscal health," says Jennifer Becker, financial services director of Burbank, California. "We have the Federal Data Transparency Act coming out, which will have more requirements. And every grant we get has its own financial reporting requirements."

The detailed disclosures called for by some GASB standards can be enormously time consuming to assemble. For example, one recent requirement about leasing stipulated that a government keep close track of an expansive list of contracts, including those for leased copiers, Microsoft Office 365 subscriptions and agreements for cellphones.

As a result of this reporting burden, "many governments use a third-party vendor to track their leases," Edmundson explains. "It can be expensive, especially for little towns."

Who are these disclosures helping? Some argue that they are for the benefit of the public, which should be able to know in full detail how their tax dollars are being spent. But it's pretty clear that few residents actually read these documents. Of those that do, most do so online. As for the actual hard copies, "our chief accountant has said that in the last five years, he's only been aware of one resident asking for a hard copy of the financial statement," says King County's Guy.

What's more, there's general agreement that even if the public was reading the reports, they are so dense and complicated that even CPAs struggle with them.

Elected officials and their staffs, who, in the best of worlds, would take on the task of forging their way through these reports, grapple with them as well. "Elected officials, I suspect, often don't

understand the reports,” says Edmundson.

“If most elected officials don’t read and/or can’t understand financial reports, it is likely a safe bet that financial reports are not widely read or understood by the public,” a [May report from the Government Finance Officers Association](#) concluded. “Furthermore, financial reports may not actually report what the public wants to know.”

That leaves the credit rating agencies, which doubtless have the greatest desire to dig into every crack and cranny of an entity’s financial standing. But, according to the GFOA report, the agencies are given far more information than they need. “Moody’s Rating Service is known for their quantitative approach to analyzing the creditworthiness of local governments. The Moody’s system relies on seven measures—when combined use a small fraction of the total information available in a financial report.”

Joel Black, GASB chairman, is aware of these issues and points to some steps that the board is taking address the situation. “The first thing,” he says, “is that our agenda is smaller. We have created a higher bar before we [explore] a new standard, so the number of standards we’re looking at is half the size of what it was a few years ago.”

Additionally, GASB is implementing a policy that requires that disclosures that appear in notes to financial statements—and there can easily be hundreds of them—have to meet a “high bar of essentiality,” says Black. “So, if we require a note statement, we have to explain how users have told us they would use them. In addition, we’re going back through existing note disclosures over time to see if they are essential.”

Clearly, GASB’s efforts to slow down the pipeline of new standards may help over the long haul. The prospect of using artificial intelligence to ease the process of creating financial reports has the potential to make a big difference as well. “The advent of AI can help with financial reporting, as long as the data is available,” says Shakeel Yusuf, chief financial officer of the Prince William County Public School System.

Route Fifty

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