LB 581, introduced by Sen. Albrecht in 2019, would require the use of Generally Accepted Accounting Principles (GAAP) to encourage accessible, uniform, and easy to understand budgets and audit reports of political subdivisions.

Most states require local governments to comply with GAAP, whereas Nebraska mostly does not. Right now, most Nebraska local governments are operating under a cash or modified accrual basis of accounting. These formats do not in many cases accurately represent the whole financial picture of a political subdivision. The arguments for using these methods is that they are easier for less-qualified accounting staff to prepare, but the consequences may be more detrimental than the benefits.

For instance, according to the Platte Institute, accounting methods not compliant with GAAP do not recognize capital assets owned by a government, nor do they measure true program costs or future obligations. For example, cash basis documents do not include promises to pay in the future, like salaries and benefits. Using a true accrual basis like GAAP could uncover non-cash obligations and is beneficial in helping to control spending.

Additionally, cash and modified accrual methods do not always account for debt. A 2007 Government Accounting Standards Board study found that municipal debt costs were 14 to 25 basis points lower in states that require GAAP, because bond market users are more accustomed to using GAAP financial information.

Another benefit of compliance with GAAP is that it establishes trust between taxpayers and the local government. Ultimately, local governments cannot appropriately manage, and taxpayers cannot examine, what doesn’t get measured.

Some local governments are going beyond minimum requirements and complying with GAAP. These include Natural Resource Districts, the cities of Beatrice, Lincoln, Norfolk, Omaha, Papillion, and South Sioux City, Douglas County, the University of Nebraska, and the State of Nebraska. These entities show GAAP compliance is an achievable task that can be asked of other local governments of similar sizes.

According to the National Association of Counties, Nebraska and South Dakota are the only states left where most of their counties follow only the very basic financial reporting standards.

**Questions**

- Should Farm Bureau policy support requiring local governments to use GAAP in budget preparation?