

Improving the Usefulness of Comparative Budgetary Information in the CAFR

By Randall L. Kinnersley

Those who prepare budgetary comparison information have several reporting options available to them.

Budgetary information is a vital part of government financial reporting. The Governmental Accounting Standards Board (GASB) revised budgetary reporting standards in GASB Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*, and GASB Statement No. 41, *Budgetary Comparison Schedules — Perspective Differences — an amendment of GASB Statement No. 34*. The GASB provides alternative budgetary presentation methods in the standards. Governments are encouraged to adopt the most useful budgetary reporting methods for their users.

Preparers of budgetary comparison information have several reporting options available to them. The number and percentage of cities that have adopted various reporting methods, from a sample of 100 cities, provides insight into the reporting methods governments have chosen to use for budgetary reporting.

REPORTING OPTIONS AVAILABLE

Location of Budgetary Information in the CAFR. The GASB requires governments to report budgetary comparison information for their general fund and major special revenue funds with legally adopted budgets. “Governments are encouraged to

present such budgetary comparison information in schedules as a part of RSI.”¹ GASB only mentions in a footnote that “Governments ... may elect to report this budgetary comparison information in a budgetary comparison statement as part of the basic financial statements, rather than RSI.”² The GASB believes budgetary comparison information is more appropriately reported in required supplementary information (RSI), rather than as part of the basic financial statements.³

In contrast, the Government Finance Officers Association (GFOA) encourages its members, and all governments, to include the budgetary information in the basic financial statement. Budgetary comparison information was historically part of the general purpose (now basic) financial statements. The GFOA believes it is important for governments to report budgetary information in the basic financial statement. According to *Governmental Accounting, Auditing, and Financial Reporting (GAAFR)*, “While GAAP require only that this budgetary comparison be presented as required supplementary information (RSI), governments are specifically permitted to include this presentation as an integral part of the basic financial statements for their governmental funds. Indeed, the Government Finance Officers Association formally recommends that budgetary comparisons be reported

as basic governmental fund financial statements.”⁴

The presentation format selected for the budgetary information is identical whether presented as RSI or in the basic financial statement. There are important reporting differences related to the location of the budgetary information in the comprehensive annual financial report (CAFR). First, the budgetary information is considered and labeled as a statement when it is included in the basic financial statement. The same information is labeled and considered a schedule if the information is included in RSI. Second, any notes related to a budgetary statement in the basic financial statement must be in the notes to the financial statements. However, notes to the same information reported as a schedule in the RSI must be included in the notes to the RSI, unless specifically required in the notes to the basic financial statement. Finally, budgetary information presented as part of the basic financial statement requires a higher level of responsibility for the auditors than the RSI reporting location.

Budgetary Information Presentation Formats. There are two general methods used to present the budgetary account titles. “Governments may present the budgetary comparison schedule using the same format, terminology, and classifications as the budget document, or using the format, terminology, and classifications in a statement of revenues, expenditures, and changes in fund balances.”⁵ The option of reporting budgetary comparison information in a budgetary format might be more familiar for non-financial users of the

CAFR. The GASB believes one format “may be more appropriate for some governments and their users, whereas the other format method may be more responsive to the needs of other governments and their users. Accordingly, the board does not prefer one method over the other.”⁶

One other presentation option is to provide “a separate column to report the variance between the final budget and the actual amounts.”⁷ This option is “encouraged, but not required” by the GASB.⁸

Reconciling Budgetary Information to GAAP. A reconciliation is required if an accounting basis other than modified accrual accounting is used for preparing the budget. Budgetary information, ...should be accompanied by information ... that reconciles budgetary information to GAAP information.”⁹ The standards do not specify a reconciliation format, but the non-authoritative illustrations in the GASB’s *Codification* present examples of reconciliations.

Four reconciliation methods are the most common. One possibility is

to reconcile the *budgetary fund balance* to the modified accrual basis of accounting fund balance. The other three common methods reconcile the generally accepted accounting principles (GAAP) and budgetary operating statements in some manner.

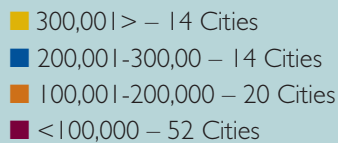
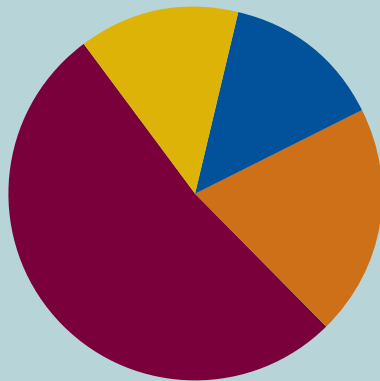
Example 2 in appendix A of National Council on Governmental Accounting Interpretation (NCGAI) 10 provides the basis for a second reconciliation method. Example 2 of NCGAI 10¹⁰ has been superseded, but the reconciliation method explains the difference between *excess of revenues and other financing sources over expenditures and other financing uses* (budgetary basis) and *excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)* (excess to excess method). In the current reporting model, this reconciliation method often explains the difference between *change in net assets (budgetary basis)* and the *change in net assets (GAAP basis)*. Many governments extend this reconciliation by adding beginning fund balance on a GAAP basis to calculate ending fund balance on a GAAP basis.

Exhibit I: Number of CAFRs from Each State

Number of CAFRs in Sample	States
Eight	California
Seven	None
Six	Texas
Five	Florida, New York
Four	Illinois, Ohio, Pennsylvania
Three	Georgia, North Carolina, Virginia
Two	Alabama, Arizona, Colorado, Indiana, Louisiana, Massachusetts, Maryland, Michigan, Missouri, Tennessee, Washington, Wisconsin
One	All Remaining States except New Jersey (27 States)

Exhibit 2: General Information on Sample Cities

Sample Cities by Population



Earned Certificate of Achievement

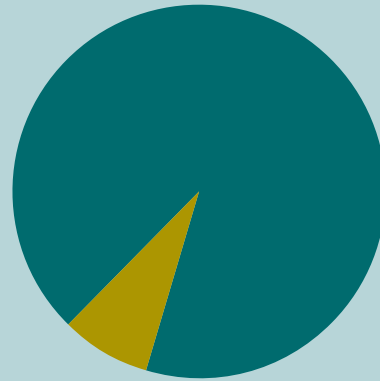


Illustration G-3 of the *Codification* provides a third reconciliation option.¹¹ This reconciliation method is a two-step process. It reconciles *sources/inflows of resources* on a budgetary basis to *total revenues* reported on the statement of revenues, expenditures, and changes in fund balances (operating statement) in step one. Step two reconciles *uses/outflows of resources* on a budgetary basis to *expenditures* as reported on the operating statement. This method is really two separate reconciliations.

Finally, illustration G-4 of the *Codification*¹² demonstrates a fourth potential reconciliation method, a reconciliation column between the *actual amounts on a budgetary basis* and the *actual amounts on a GAAP basis* (columnar format). One limitation of this method is that it may reduce the reporting of the optional variance column.

Data Collection. One hundred CAFRs were collected from the Web pages of cities located across the country.

At least one city with a population of 50,000 or more was included from 49 states. The city (or cities) selected from each state were randomly selected. The national sample includes at least one CAFR from each of the 27 least populated states and eight CAFRs from California, the most populated state. Two to six city CAFRs are included for other states, depending on the state population. Exhibit 1 provides a breakdown of the number of CAFRs included in the sample from each state.

DATA RESULTS

General Information. Exhibit 2 provides some general information about the sample cities. Fifty-two of the 100 cities have a population of less than 100,000.¹³ Twenty cities have a population between 100,001 and 200,000, while 14 cities have populations between 200,001 and 300,000. Fourteen cities have populations of more than 300,001.

Ninety-two of the 100 cities (92 percent) earned the GFOA Certificate of Achievement for Excellence in Financial Reporting. At least 85 percent of the cities within each population range earned the Certificate of Achievement. It is reasonable to expect that cities in this study may be typical for cities with populations of more than 50,000 because the sample was random within state. The results may not be representative of small governments, which may not have the financial expertise of cities with populations of more than 50,000.

Location of the Budgetary Information. Exhibit 3 summarizes the location of the budgetary information in the CAFR for the sample cities. Fifty-nine of the 100 cities (59 percent) reported the budgetary information in the RSI, as encouraged by the GASB. Forty-one cities (41 percent) reported the budgetary information in the basic financial statement, as recommended by the GFOA. The influ-

Exhibit 3: Location of Budgetary Information

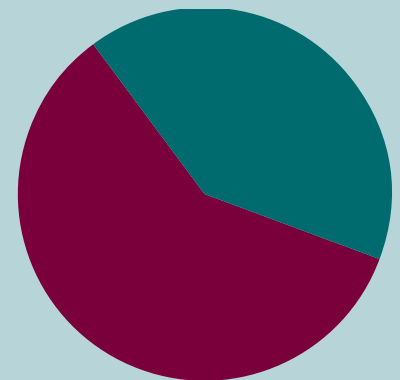
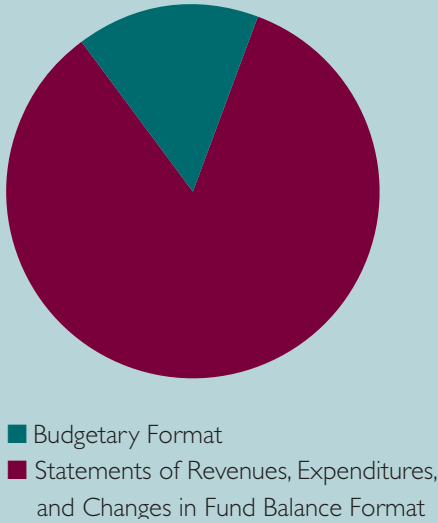


Exhibit 4: Budgetary Information Presentation Format



ence of the GFOA on comparative budgetary information reporting is obvious; it is unlikely that 41 cities would have referenced a footnote in the accounting standards and reported budgetary information in the basic financial statement without the recommendation of the GFOA.

Budgetary Information Presentation Format. Judgment is necessary to classify whether a city was using a statement of revenues, expenditures, and changes in fund balances format (operating statement format) or a budgetary format to present budgetary comparison information. The budgetary schedule or statement had to start with revenues and expenditures (and encumbrances) with an excess of revenues over expenditure subtotal to be considered operating statement format. Certain factors automatically classified the statement or schedule as a budgetary format, including: 1) the first line of the statement or schedule

was not revenue, 2) reporting other financing sources with revenue (or sources), 3) reporting no revenue or sources in the budgetary information, and 4) labeling expenditure functions differently between the operating statement and the budgetary information. Exhibit 4 summarizes the budgetary information presentation format. Eighty-four of the 100 cities (84 percent) reported the budgetary information using a classification method consistent with the operating statement format. Sixteen percent of the cities used the budgetary format. This result is based on the judgment of the researcher and therefore is potentially less accurate than the other information.

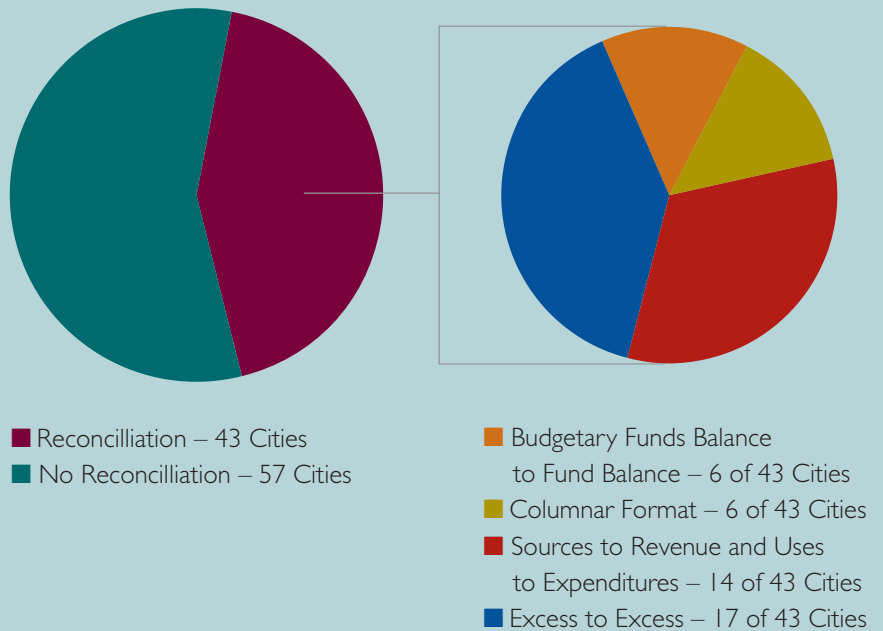
Finally, ninety-eight of 100 sample cities (98 percent) included the variance column despite the fact that it is not required.

Budgetary Reconciliation Format.

Exhibit 5 reports the number of cities that used the various reconciliation methods. The first item of interest is that no reconciliation was prepared by 57 cities.¹⁴ Those cities prepare the budget on a GAAP basis and consequently no reconciliation is necessary. The remaining 43 cities prepared an appropriate reconciliation.

Smaller cities (those with populations of 200,000 or less) are much more likely to budget on a GAAP basis than the larger cities. There is a statistically significant difference between the smaller cities and the larger cities, which means that smaller cities not in the sample are also much more likely to budget on a modified accrual basis than larger cities. Complex operations of larger cities may increase the likelihood of timing differences, perspective differences, or

Exhibit 5: Reconciliation Format



entity differences that require a reconciliation process. Additional research is necessary to determine the reason for the difference.

The excess to excess format is the most frequently used reconciliation format, with 17 of the 43 reconciliations (39.5 percent) using that method. Nine of the 17 cities then add beginning fund balance on a GAAP basis to reconcile to ending fund balance on a GAAP basis. The budgetary sources to revenues and budgetary uses to expenditures method is the second most common reconciliation method with 14 of the 43 reconciliations (32.5 percent). Six of the 43 reconciliations (14 percent) use the basic financial statement to accounting fund balance method. These three reconciliation methods were common prior to the implementation of GASB Statement No. 34, which introduced the columnar reconciliation method. Not surprisingly, it is one of the least-used methods, with six of the 43 cities (14 percent) using the columnar method.

CONCLUSIONS

Several key findings are reported in the article. First, 92 percent of the randomly selected cities in the sample earned the Certificate of Achievement for Excellence in Financial Reporting. This demonstrates that many financial officers have the desire to prepare informative financial statements. The influence of the GFOA on city financial officials is clear. The GASB encouraged presentation of the comparative budgetary information in the RSI rather than in the basic financial statement as recommended by GFOA. Forty-one percent of the cities included the budgetary information in the basic financial statement. The GFOA recommendation

of using the basic financial statement reporting location is the most likely explanation.

Eight-four percent of the governments in the sample used an operating statement format rather than a budgetary format to present budgetary information in the CAFR. Ninety-eight of the 100 cities included the optional variance column as part of the budgetary comparison information.

When is the last time your government evaluated the location and format of your budgetary information, including the reconciliation?

Finally, 57 of the sample cities budget on a GAAP basis and therefore do not prepare a reconciliation. Forty-three of the 100 cities prepare a reconciliation according to one of the four reconciliation methods. At least six of the 43 cities (14 percent) use each of the four reconciliation methods. None of the methods was dominant, with the most frequently used reconciliation method (excess to excess) selected by 17 out of 43 (39.5 percent) of the cities.

One purpose of this article is to enhance reporting for budgetary information. When is the last time your government evaluated the location and format of your budgetary information, including the reconciliation? Most governments originally made these decisions during the conversion to GASB Statement No. 34. This article provides references to acceptable presentation methods and evidence that other

governments are using each of these reporting options. Will a change in your method of presenting budgetary information enhance the communication of your CAFR to your users? One goal of the information presented is to encourage governments to reevaluate their budgetary reporting methods in the CAFR, even if it is to confirm the current reporting method is the best for your government. ■

Notes

1. GASB, *GASB Codification* (Norwalk, CT: GASB, 2009), section 2400.102.
2. GASB, *GASB Codification* (Norwalk, CT: GASB, 2009), section 2400.102, note 1.
3. GASB, *GASB Statement No. 34*, paragraph 448.
4. Stephen J. Gauthier, *Governmental Accounting, Auditing, and Financial Reporting* (Chicago: GFOA, 2005).
5. GASB, *GASB Codification*, section 2400.103.
6. GASB, *GASB Statement No. 34*, paragraph 452.
7. GASB, *GASB Codification*, section 2400.102.
8. Ibid.
9. GASB, *GASB Codification* (Norwalk, CT: GASB, 2009), section 2400.103.
10. National Council on Governmental Accounting, *NCGA Interpretation 10* (Chicago: GFOA, 1982), appendix A.
11. GASB, *GASB Codification*, section 2400.903.
12. Ibid.
13. One of the 52 cities has a population of only 38,500 because it is the largest city in the state.
14. One city that should have prepared the reconciliation did not include it.

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