

# **Bond Case Briefs**

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## **WSJ: Muni Bond Issuers Slow to Report Finances, Study Shows.**

State and local governments are still slow to provide investors with reports on their fiscal health despite a push by municipal bond investors and regulators to get municipalities to improve their disclosures.

It took almost six months after the end of their fiscal year for state and local governments to complete their audited financial statements, about two months longer than the time frame regulators suggest, a Merritt Research Services study said.

After looking at more than 8,000 fiscal 2012 audit reports from municipal bond issuers received by August 30, Merritt found that states, counties and cities were among the slowest groups to complete their audits, taking an average of 174 days, 172 days and 171 days respectively from the end of their fiscal year.

In the wake of Detroit's record-setting municipal bankruptcy and amid growing concerns about the fiscal health of Puerto Rico, delayed financial filings are an increasing frustration for municipal bond investors. Puerto Rico, whose bonds have traded recently at yields as high as 10%, just filed its 2012 audit this month, more than a year after the close of that fiscal year and about four months after it was promised to investors.

"The ones that are coming in so late are often the ones we really want to see," said Richard Ciccarone, Merritt's president and chief executive. "It creates a problem for bondholders."

Private universities, hospitals and wholesale electric utilities were among the fastest groups to complete their audits, with median times of 113 days, 109 days and 95 days respectively, Merritt said.

Merritt measured the days it took an issuer to complete an audit by counting the time between a municipality's fiscal year-end and the date an auditor signed off on its financial report. The median audit time for all 15 municipal bond sectors Merritt studied for fiscal 2012 was 139 days.

Regulators, such as the Securities and Exchange Commission, have encouraged, but not required, municipalities to file their financial audits within 120 days after the close of their fiscal year, but there is no punishment when they don't comply, Mr. Ciccarone said. The SEC only has the power to go after municipalities in cases of fraud.

For 2012, only about 8% of the cities and counties and roughly 6% of states came within the SEC's recommended 120-day time threshold, according to Merritt data. About 1% of cities and about 2% counties had their audit done within 90 days. No states filed their audits within 90 days, Merritt data showed.

The SEC requires publicly traded companies to file their audited financials in a 60 to 90 day time frame.

Indeed, there is some evidence that the more fiscally stressed a local government is, the longer it takes that government to complete its audited financials, Mr. Ciccarone said.

Audited 2012 financials haven't been received from Stockton and San Bernardino, two California cities currently in municipal bankruptcy. Those cities took 506 days and 517 days, respectively, to complete their fiscal 2011 audits, Merritt data showed.

Likewise, Harrisburg-Pennsylvania's state capital that has flirted with bankruptcy thanks to a debt load from a failed trash incinerator project—took 496 days to turn in its fiscal 2011 audit and hasn't completed its fiscal 2012 audit, according to Merritt's data.

For fiscal 2011, the median audit reporting time for all municipal sectors Merritt studied was 146 days, the same as fiscal 2010.