

# **Bond Case Briefs**

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## **Report: Muni Issuers Haven't Significantly Improved Audit Times.**

WASHINGTON - Municipal bond issuers and borrowers haven't substantially improved the amount of time they take to complete their financial audits, a report from Merritt Research Services found.

The report was published on MuniNetGuide.com on Tuesday. It was written by Richard Ciccarone, president and chief executive officer of Merritt and co-publisher of MuniNet Guide.

"When it comes to improving accountability to stakeholders, access to timely audited reporting is critical to evaluate financial condition and adherence to appropriate fiscal standards," he wrote in the report. "For municipal bondholders, late or stale audits inhibit the market's ability to assign accurate pricing relative to the risk associated with the borrower, as well as the public's ability to influence outcomes."

Merritt examined more than 73,000 audited financial statements released by municipal bond issuers and borrowers for fiscal years 2008 through 2014. It focused on the audited financials in 16 primary muni credit sectors: local school districts, cities, counties, water and sewer districts, airports, community colleges, dedicated tax entities, hospitals, private higher education, public higher education, retail public power, wholesale public power, special districts, states & territories, tollways and other revenue supported borrowers.

Merritt calculated the timing by measuring the period from the end of the issuers' and borrowers' fiscal years to the dates when the audit letters were signed. It may be weeks later before the issuer discloses its audited financials, the report said.

The median audit completion time for all credits fell to 143 days for fiscal 2014 from 149 days the previous year. Several credit sectors beat their fiscal 2013 median times by at least five days, and most sectors experienced median reporting times in fiscal 2014 that were below their seven year average. "Perhaps this is an indication that the trend is moving in the right direction, albeit, at a baby steps pace," Ciccarone wrote.

Still, "we need to see more than just several days improvement," Ciccarone told The Bond Buyer. He said that he would have expected issuers to have become more timely over the years because of the desire to make the market more efficient.

The sectors that are among the fastest and the slowest have remained consistent over time. States and counties were the slowest, with each having a median time of 175 days for fiscal 2014, followed by cities, which had a median time of 169 days. The sector with the fastest median audit completion time was wholesale public power issuers, with a median time of 100 days in fiscal 2014. Nonprofit hospitals had a median completion time of 112 days and private universities had a median time of 113 days, according to the report.

If the Securities and Exchange Commission's mandated public reporting times for regulated corporate borrowers applied to muni issuers, they would not meet them, Ciccarone said. The SEC

requires companies to complete audited financials from 60 to 90 days, depending on their size. Only 2% of cities, counties and states' fiscal 2014 reporting times would pass that test, and just 36% of public power wholesale electric issuers would pass, according to the report.

If the 120-day completion time that some have called for was implemented, most hospital, wholesale electric and private higher education issuers would have met it for fiscal 2014, but only 10% of cities, 5% of counties and 6% of states would have complied. The percentages of state and local government audits completed within 120 days are about the same as they were for fiscal 2011.

"The lack of progress over time solidifies the legitimacy and importance of the message that more has to be done to improve the time it takes to make municipal bond audits public," Ciccarone wrote.

Ciccarone said that a 120-day goal is "within reason," and evidence proves that the goal can be met. For example, Columbus, Ohio has finished its audits in 90 days or less four times in the last five years, and New York City has been consistently able to complete its audits around the 120 day mark.

The cities that had shortest and longest audit completion times for fiscal 2014 were both small and large. Detroit, which is coming out of bankruptcy, took 352 days, and Baltimore still hasn't reported its audited financials for its fiscal year ending June 30, 2014, according to the report.

The state with the fastest fiscal 2014 reporting median for its cities was North Carolina (118 days), and the state with the slowest reporting median for its cities was Massachusetts (214 days). For many sectors, the credits that were higher rated by Moody's Investors Service or Standard and Poor's typically had the fastest audit times, according to the report.

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BY NAOMI JAGODA

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