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**SEC Field Hearing on the Municipal Securities Market  
Accounting Panel  
December 7, 2010  
WRITTEN SUBMISSION**

Chairman Schapiro, Commissioner Walter, Commissioner Aguilar, Commissioner Paredes, Mr. Cook, Mr. Kroeker, and Ms. Schock, thank you very much for inviting me to testify today at the SEC's second Field Hearing on the Municipal Securities Market. I am Timothy Firestine, Chief Administrative Officer for Montgomery County, Maryland, and I am also a member of the Government Finance Officers Association's Executive Board.

This afternoon, I would like to briefly outline the industry standards developed by the GFOA, explain Montgomery County's approach to accounting responsibilities with the development of its financial statements and how it relates to the municipal securities market, and also share a few thoughts with you about the Governmental Accounting Standards Board (GASB).

GFOA's leadership in governmental financial transparency is long standing and well-documented. Its role in promoting enhanced financial reporting stretches at least as far back as the 1936 publication of the first edition of the now classic "Blue Book" (*Governmental Accounting, Auditing, and Financial Reporting*). Since 1945, the GFOA's Certificate of Achievement for Excellence in Financial Reporting Program has played a crucial role in promoting compliance with Generally Accepted Accounting Principles (GAAP). Likewise, the GFOA was a leader in the effort that led to the establishment of the Governmental Accounting Standards Board in 1984 and has remained a significant financial supporter of the GASB ever since.

The GFOA, and other groups including the National Association of State Auditors, Comptrollers and Treasurers, have been strong advocates of GAAP reporting. The GFOA led the very first efforts to define GAAP for municipal governments and issued a best practice in 1983, "Governmental Accounting, Auditing, and Financial Reporting Practices," which urges all state and local governments to prepare their financial statements in conformity with GAAP.

In addition, the majority of governmental debt issuers exceed GAAP standards as recipients of the GFOA's Certificate of Achievement for Excellence in Financial Reporting. This program, which was created in 1945, promotes the preparation of high quality financial reports through the development of a Comprehensive Annual Financial Report (CAFR) and plays an important role in improving the quality of financial reporting in the public sector. An entity receives a Certificate for meeting exceptional standards in the presentation of its financial data. Each year approximately 3,500 governments participate in the program, including 88 percent of the nation's largest cities. In fact, Montgomery County has received this award more times than any other county in the United States – starting in 1951.

The CAFR allows investors to easily compare the financial health of multiple governments and get the apples to apples comparison they are seeking. This is one reason why GFOA strongly recommends that all governments prepare one. Required information in the CAFR includes 10-year financial trend data; 10-year revenue capacity items (e.g., tax revenues); 10-year debt capacity information; 10-year economic and demographic information; and 10 year- operating information.

The annual financial statement, which is submitted by debt issuers to EMMA as defined in SEC Rule 15c2-12, also provides a wealth of information available to investors. The GFOA recommends that issuers submit their CAFR for this purpose. For many, doing so exceeds the requirements that they must file in accordance with their continuing disclosure agreements.

It is important for the SEC, investors, and the public to realize the amount of time and resources that go in to preparing these statements, which, again, yields far more information than can be found in corporate financial reports. Some of the specific points to highlight include -

- GAAP requires government reports to include financial data from legally separate “component units” over which the government has little practical control. For such governments, completing their own annual financial report depends on the timely issuance of financial statements by legally separate entities -- entities that they cannot compel to comply in a specific timeframe.
- The audit opinion is issued at the level of each “major” fund, not just at the total financial report level – this results in much lower levels of materiality, an increased use of actual amounts for accruals rather than estimates, and more detailed and time consuming audit procedures.
- State and local governments also face specific audit challenges as part of the year-end audit, such as specialized *Government Auditing Standards*, and federal Single Audit standards compliance. A single audit generally involves detailed auditing of internal controls and compliance at the individual program level, often for a significant number of programs.
- Due to the changes over the years in the accounting and auditing profession, there are a limited number of auditing firms that specialize in governmental accounting. Additionally, the more competitive – often lower – rate per hour that auditors can charge and that local governments are willing to pay for audits further limits those able and willing to focus on governmental auditing. This dearth of qualified professionals adds to the timeframe when annual financial statements can be completed and submitted to EMMA.

Innately, governments are very different than corporations, in ways that add significant time to close the books and prepare financial reports before they are audited. Some of these differences include the following:

- Government budgets are legally adopted and a government lives and dies by its budget. Therefore, there is a lower level of tolerance for estimates in closing the books; the focus instead is on capturing actual expenditure and revenue accruals.

- Governments' activities are captured and reported in a multitude of funds. This generally leads to a much lower level of audit materiality than in a corporation of comparable size.
- Federal operating and capital grant activity is included in a local government's financial statements, and is subject to less tolerance for estimates and more detailed single audit testing.
- Government activities are reported on several different bases of accounting – modified accrual for governmental funds, which includes separate accounting for purchase order encumbrances, and full accrual for proprietary funds. All modified accrual activity has to be converted to full accrual for the top-level financial statements. Budgetary reports also are required, and these can be on a third basis of accounting. This takes knowledge of GASB and FASB standards, and additional time to close the books on two or three bases of accounting.

The GFOA and many other groups spoke out earlier this year against the SEC's proposal and subsequent approval of the formation of voluntary fields in EMMA for governments to indicate if they will provide their annual financial information within 120 or 150 days of the end of their fiscal year. It takes an extensive effort to compile this information and go through an audit. GFOA's own Certificate program allows governments 180 days to complete their annual financial statement. Montgomery County is subject to the State of Maryland mandated deadlines, which require local governments to submit audited financial statements prepared in accordance with GAAP, along with electronic submission of selected condensed financial statements. For governments with a population over 400,000, the State mandated reporting deadline is January 1, or 180 days. GFOA fears that these deadlines could diminish the value of the financial information, and have the opposite affect than the SEC intended, as it might persuade any number of governments to abandon preparing a CAFR altogether in favor of a greatly-reduced plain set of basic financial statements. Additionally, governments, especially smaller governments, may choose an auditor with less than optimal governmental accounting and auditing experience.

Let me walk through with what it takes for Montgomery County to prepare its annual financial statement.

For context, Montgomery County has:

- Approximately 20 centralized accounting staff members that perform year-end closing and report preparation, in addition to their normal daily accounting responsibilities, over an elapsed 5 ½ to 6 month period (July 1 to mid/late December); (Additional accounting/fiscal staff throughout the operating departments perform routine cash receipt, disbursement and reconciliation activities)
- A CAFR that is more than 200 pages long and reports on 38 separate funds, including 8 major funds
- Reported total County assets of \$4.4 billion, revenues of \$3.6 billion, and net assets of \$1.6 billion (FY09)
- \$116 million in awards under almost 200 programs from 15 federal agencies

- Sponsors and operates an investment pool, self-insurance program, and pension program on behalf of itself and many other municipalities and local governments within the County
- Includes the summary audited financial statements of 5 component units
- Until July 1, an inflexible mainframe accounting system that was 20 years old – this is being replaced with a comprehensive ERP system at a cost of \$42 million (actual/encumbered through FY10)
- CAFR reporting tools consisting of crystal-based financial statements and word-based footnotes, MD&A, and transmittal letter that are manually consolidated into a 200 page final report.

A typical timeline includes:

- Prior to year-end which is June 30: coordination with operating departments in planning, training,
- July: year-end invoices are charged back to year-end
- August: additional revenue and expenditure accruals across the funds
- August/September: additional encumbrance liquidations performed after final invoice cutoff
- August through October: reconciliations, closing entries, confirmations, adjustments are performed for all funds and each capital project and operating grant.
- November: government-wide conversion process and reconciliations, completion of financial statement drafts, reviews and proofing.
- December: issuance of drafts, complete auditing of government-wide conversion, final issue resolution and issuance of audit opinion and financial report

It is also important to acknowledge and be fully aware, especially now, that governments must dedicate funds to the delivery of services to their citizens, and finding additional resources to appropriate for additional back office operations is difficult. This is a time when governments are having to do more with less, and still provide the essential services that our citizens demand in the areas of transportation, public safety, libraries, and social services, just to name a few. It is difficult to get my arms around how governments would be able to take away from those necessary programs, in order to add more staff to the back office in order to prepare additional information, as has been suggested by the SEC, and which would likely result in little value.

Another important point that needs to be mentioned is that ALL of this information is debated in a public forum, is reported on by the press, and is available to the public on our web sites. I can't tell you how much it frustrates me when I read comments questioning the transparency of government finance. When is the last time a corporation held a public hearing on their budget? Can I go to its web site and see what it is projecting for the future, or am I left seeing only past data? Montgomery County posts on our website our financial reports, budgets, fiscal plans, contracts, detailed expenditures, and audits – and websites like SunshineReview.org (show me the spending) report on the transparency of state and county governments and local school systems. The SEC has tried to make a dent in acknowledging the wealth of information available from governments by allowing EMMA to have a field for them to provide a link to their budgeting and financial information. We think that is a positive move forward that

dovetails nicely with GFOA's best practices to encourage governments to post their financial and budgetary information on their web sites. These best practices include recommending to governments that in addition to their annual financial reports and budgets, interim financial information, that is routinely developed for the governing bodies should be readily available to the public.

As I mentioned above, smaller governments have difficulty finding qualified auditors and completing their annual financial reports. Additionally, smaller governments (again many of which do not issue debt), find it difficult and cost prohibitive to adhere to dozens of GASB standards. Therefore it is wrong to assume, or make a statement, that when governments aren't following GAAP according to GASB, that they aren't following any accounting or auditing standards. It is simply untrue. A government can still receive an audit opinion when they are following another accounting standards. We hope that the SEC will acknowledge this, and help educate the public that not following GAAP/GASB does not mean not following any accounting standards.

Investors tell us they appreciate the developing best practices and work on projects of mutual interest with groups like the National Federation of Municipal Analysts and the Investment Company Institute. They are looking for, and want readily at hand, information on budgets interim financials and annual financials. GFOA's numerous Best disclosure practices speak to each of these issues and they promote the posting of this information on web sites dedicated to bond investors – even though it is already public information.

Comparing governmental accounting and reporting to private sector accounting and reporting is by no means a fair comparison. Governmental accounting standards are very different, and the materiality standards are different than those that exist in the private sector. In actuality, they far exceed those in the private sector. Indeed, it is irresponsible to compare the public and private accounting standards, which is why the GASB authored an important paper in 2006 entitled “Why Government Accounting and Financial Reporting Is—and Should Be Different.”

In conclusion, let me make five key points –

- There needs to be an awareness that governmental accounting standards are different than corporate accounting standards
- Many smaller governments are unable to follow GASB standards, but still are following accounting standards and being audited
- In our sector, there is a wealth of financial information available to investors.
- The costs associated with placing additional demands on governments, would not justify their demand.
- Next Spring, EMMA will include a field allowing governments to post links to their financial and budgetary data. We believe this is a significant benefit to the marketplace and will greatly assist investors.

Thank you again for the opportunity to testify today.

Attachments: GFOA Certificate Program Information  
GFOA Best Practices

- Understanding Your Continuing Disclosure Responsibilities
- Maintaining an Investor Relations Program
- Using a Web Site for Disclosure
- Improving the Timeliness of Financial Reports
- Web site Presentation of Official Financial Documents
- Use of the CAFR to Meet SEC Requirements for Interim Disclosure



## BEST PRACTICE

### **Understanding Your Continuing Disclosure Responsibilities (2010)**

**Background.** Any government or governmental entity issuing bonds has an obligation to meet specific continuing disclosure standards in compliance with Securities and Exchange Commission (SEC) Rule 15c2-12. This rule, which is under the *Securities Exchange Act of 1934*, sets forth certain obligations of (i) underwriters to receive, review and disseminate official statements prepared by issuers of most primary offerings of municipal securities, (ii) underwriters to obtain continuing disclosure agreements from issuers, and other obligated persons to provide material event disclosures and annual financial information on a continuing basis, and (iii) broker-dealers to have access to such continuing disclosure in order to make recommendations of municipal securities in the secondary market.<sup>1</sup>

When bonds are issued, the issuer enters into a continuing disclosure agreement/certificate/undertaking (CDA) for the benefit of the underwriter to meet the SEC's requirements, promising to provide certain annual financial information and material event notices to the public. In accordance with changes made in 2009 to Rule 15c2-12, those filings must be made electronically at the Electronic Municipal Market Access (EMMA) portal ([www.emma.msrb.org](http://www.emma.msrb.org)).

Nothing prohibits issuers from providing periodic voluntary financial information to investors in addition to fulfilling the SEC Rule 15c2-12 responsibilities undertaken in their CDA through EMMA. It is important to note that issuers must disseminate any financial information to the market as a whole and cannot give any one investor certain information that is not readily available to all investors.

In addition to making EMMA filings, a government may choose to post its annual financial information and other financial reports and information on its web site.

**Recommendation.** The Government Finance Officers Association (GFOA) recommends that finance officers responsible for their government's debt management program adopt a thorough continuing disclosure policy and adhere to the following disclosure practices that are practical for their entity. Governments are encouraged to incorporate robust disclosure practices in order to enhance their credibility in the marketplace, foster liquidity for the securities and demonstrate a solid disclosure track record that will be viewed favorably by investors, credit rating agencies and the public.

Issuers should consider the following elements in order to create a strong continuing disclosure policy:

1. They should have a clear understanding of their responsibilities as defined in the bond's continuing disclosure agreement/certificate/undertaking. This includes being aware of the material events that must be disclosed. Prior to execution, CDAs should be discussed with the transaction's bond counsel, underwriter and financial advisor to ensure a full understanding of issuer obligations.

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<sup>1</sup> MSRB Glossary of Terms, [www.msrb.org](http://www.msrb.org)

2. Governments should develop continuing disclosure procedures that:
  - a. identify the information that is obligated to be submitted in an annual filing;
  - b. disclose the dates on which filings are to be made;
  - c. list the material events as stated by the SEC and your CDA; and
  - d. identify the person who is designated to be responsible for making the filings.
3. For many governments, a Comprehensive Annual Financial Report (CAFR) may fulfill annual financial information obligations. The information provided in a CAFR does not have to be replicated when filing with EMMA. If within a CDA a government has agreed to furnish information that is outside the scope of its CAFR, that information may be included as a supplement to the CAFR when filing with EMMA.
4. As recommended in the GFOA's Certificate of Achievement for Excellence in Financial Reporting program, a government should complete its audited annual financial information within 180 days of the end of its fiscal year. Upon its completion, the CAFR should immediately be submitted to EMMA.
5. Although the SEC has approved a new voluntary field within EMMA for governments to indicate if they make their filing of annual financial information within 120 or 150 days of the end of the year, such a notation can only be made if the government includes such a commitment within its continuing disclosure agreement. The GFOA does not support the inclusion of such a commitment within a government's continuing disclosure agreement, as such timelines will be very difficult to meet, and if a government fails to adhere to such a timeframe, they would be in violation of their continuing disclosure agreement.
6. Material event notices should be filed according to SEC Rule 15c2-12
  - a. For bonds issued after December 1, 2010, the SEC requires issuers to file material event notices within 10 business days of the event.
  - b. For bonds issued before December 1, 2010, the rule states that governments should file event notices in a "timely manner." Governments are encouraged to adopt a policy to submit material event notices, within 10 business days.
7. Governments, in consultation with internal and external counsel, may wish to submit other financial information to EMMA (and post it on their web sites) that goes beyond what is specified in the CDA. This information includes annual budgets, financial plans, financial materials sent to governing bodies for council or board meetings, monthly financial summaries, investment information, and economic and revenue forecasts. Additionally, governments are encouraged to place this interim financial information on their web sites, and through a new feature within EMMA that allows governments to post a link to their web site so that investors and the public can directly access the information.
8. Issuers may want to provide additional information to investors about agreements entered into in connection with debt issuance. These disclosures should provide information that will enable investors to make judgements about the volatility and risk exposure of certain kinds of agreements that may embed risks that should be disclosed and quantified. Areas of such risk exposure include:
  - a. Letters of credit issued in connection with variable rate debt issuance;
  - b. Interest rate swaps entered into in connection with debt issuance;
  - c. Investment agreements for bond proceeds, including reserve funds, particularly where such investments may be pledged or anticipated bond security; and
  - d. Insurance sureties used to fund reserve fund requirements.

## References.

- *Making Good Disclosure*, Government Finance Officers Association, 2002.
- GFOA Best Practice, *Using a Web Site for Disclosure*, 2010.
- GFOA Best Practice, *Maintaining an Investor Relations Program*, 2010.

- GFOA Best Practice, *Using the Comprehensive Annual Financial Report to Meet SEC Requirements for Periodic Disclosure*, 2006.
- *Disclosure Roles of Counsel*, John McNally, Project Coordinator, ABA/National Association of Bond Lawyers, 2009.
- SEC Rule 15c2-12, <http://www.sec.gov/rules/final/adpt6.txt>.
- Electronic Municipal Market Access (EMMA), <http://www.emma.msrb.org>.

Approved by the GFOA's Executive Board, October 15, 2010.



## BEST PRACTICE

### Maintaining an Investor Relations Program (1996, 2003 and 2010)

**Background.** Investors are a primary source of capital for state and local governments. When a governmental entity sells debt, it enters into a long-term contract to make timely debt service payments to investors. Other stakeholders, such as bond insurers, liquidity providers, rating analysts, trustees, credit enhancers, counterparties, and constituents are interested in obtaining financial and operation information on issuers. An effective investor relations program that responds to the informational needs of these diverse groups may lower borrowing costs for issuers.

**Recommendation.** The Government Finance Officers Association (GFOA) recommends that governmental bond issuers consider developing an investor relations program. The centerpiece of such a program is a commitment to provide full and comprehensive disclosure of annual financial, operating, and other significant information in a timely manner consistent with federal, state and local laws. Issuers may consider and are encouraged to provide additional information to investors beyond that provided for in their contractual commitments. An investor relations program should address the following:

1. Identify the individual(s) who is (are) responsible for speaking on behalf of the issuer. Establish steps to ensure that all external communication regarding disclosure is approved by this (these) person(s).
2. After giving consideration to the size and organizational structure of the entity, consider creating a “Disclosure Board” or other appropriate group, to establish the events to be disclosed and periodicity of disclosure items. Positions on the Disclosure Board may include: the debt manager, the chief financial officer, a representative of the legislative body, an administrative officer, the financial advisor, and bond counsel or issuer’s counsel.
3. The Disclosure Board, or other appropriate group, should establish policies and procedures for the Investor Relations Program. Policies and procedures should be simple and clear, and should address:
  - a) Identification and selection of information, both positive and negative, to be made available to investors, including material events, changes in financial or operating position, and changes in government policies. Documents that could be a source of such information include:
    - Annual budgets, financial plans or comprehensive annual financial reports,
    - Interim financial information that is sent to governing bodies for council or board meetings, and
    - Ordinances or resolutions adopted by a governing body.
  - b) Identification of ways to stay abreast of issues that are likely to be of concern to investors, such as issuer policies and practices pertaining to investments, fund balance, and accounting practices.

- c) Identification and maintenance of a database of investors and analysts who review the purchase of the issuer's debt instruments.
  - d) Use of CUSIP (Committee on Uniform Securities Identification Procedures) numbers.
  - e) Identification of means of disseminating information. Consideration should be given to: the Electronic Municipal Market Access system (EMMA), e-mail, websites, postal distribution, and investor meetings.
  - f) Format of the document (e.g., .html or .pdf if electronically disseminated).
  - g) Timing of a release of information with any sale of debt instruments, if necessary.
  - h) Responding to investor questions. Consideration should be given to means of communication to all investors when a single investor poses a question.
  - i) Ensuring the majority of investors have access to the information.
  - j) Ensuring that preliminary official statements are received one week in advance of a bond sale.
  - k) Maintaining a good relationship with the rating agencies and fund analysts including distribution of disclosure information and keeping them informed of any changes that could affect credit quality and actions to address financial problems.
  - l) Ensuring that financial statements or other information needed for disclosure purposes are completed on a consistent schedule from year-to-year and prior to the date established in any contractual commitments.
  - m) Engaging in marketing activities to alert investors of a pending bond sale, especially if the debt instruments are sold competitively. Such activities may include preparation of special reports for investors, the scheduling of investor meetings, conference calls, and webcasting of issuer conference calls and on-site visits.
4. Consideration should be given to the fact that any record created as a result of the Investor Relations Program may be subject to internal policies and/or federal, state and local laws concerning document retention and freedom of information.

The municipal marketplace is changing, and the need to provide additional information with greater frequency is significant. Issuers should maintain an awareness of changes in current practice in the area of investor relations. Investor Relations Programs that go beyond the legally mandated requirements of Securities and Exchange Commission (SEC) Rule 15c2-12 promote the efficient sale of debt instruments in both the primary and secondary markets and improve the reception of debt offerings. Expansive disclosure practices are encouraged, especially the availability of interim financial information between your annual filings.

### **References**

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- "Securities and Exchange Commission Enforcement Actions in the Municipal Securities Markets," *Government Finance Review*, August 1996.
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- GFOA Best Practice, "Using a Web Site for Disclosure," GFOA, 2002.
- GFOA Best Practice, Web Site Presentation of Official Financial Documents, 2009.
- GFOA Best Practice, "Understanding Your Continuing Disclosure Responsibilities, 2010.
- *Disclosure Roles of Counsel*, John McNally, Project Coordinator, ABA/National Association of Bond Lawyers, 2009.
- EMMA - <http://emma.msrb.org/>

Approved by the GFOA's Executive Board, October 15, 2010.





### **Using a Web site for Disclosure (2002 and 2010)**

**Background.** Technology significantly impacts the way in which information is communicated and, in some cases, has fundamentally changed the way business is conducted. Utilizing technology allows governments to be more efficient and effective in communicating with municipal market participants. Many governments are using their Web sites to provide disclosure information electronically. Preliminary Official Statements (POS), audited financial statements, feasibility reports and other related documents have been made available electronically in connection with bond sales. Continuing disclosure filings and other important financial and budgetary information have been provided on governments' Web sites. Issuer Web sites have also been used in addition to, or in lieu of, traditional press releases to communicate important events. Investors and analysts have applauded the use of Web sites for disclosure. The use of Web sites to disseminate information electronically is the wave of the future and has been embraced by the Securities and Exchange Commission (SEC) as promoting transparency, liquidity and efficiency in the credit markets. As delivery of electronic information gains momentum, the need for guidance to governments on how to prudently incorporate web-based disclosure into their normal business practices becomes ever more important.

**Recommendation.** The Government Finance Officers Association (GFOA) recommends that governments and bond issuers use their Web sites to disseminate information to the municipal securities market regarding their debt, financial condition and other related information. The Internet, in general, and issuers' Web sites, in particular, provide a powerful tool for communicating with, and disclosing information to, credit analysts, investors, underwriters and other municipal market participants. By using a Web site, governments can augment other means of communicating with the municipal market. Web sites can be an integral part of an effective investor relations program, (see "Debt Management Recommended Practices - Maintaining an Investor Relations Program" 1996). A Web site can be used to make POS and other documents used in connection with bond sales available electronically. A Web site can also be used to provide ongoing financial information to the market, in addition to an entity's annual filings that are required under SEC Rule 15c2-12. Lastly, the Web site can be used to archive or store historical documents such as audited financial statements, Comprehensive Annual Financial Reports (CAFRs), continuing disclosure filings and Official Statements (OS) so that they are available to investors for reference purposes.

In order to assist investors and the public with finding your financial and disclosure information on your web site, issuers are encouraged to make a voluntary submission to the EMMA (Electronic Municipal Market Access) system with a hyper-link to the specific pages on your web site that contains this information.

Making disclosure information more accessible will help improve the efficiency of the municipal market and can possibly lower borrowing costs by improving the liquidity of an issuer's bonds. Other advantages to issuers in using their Web site for disseminating disclosure information include:

1. Web sites provide the simultaneous release of disclosure information to the entire market, thus avoiding inappropriate preferential treatment of investors.

2. Issuers control the content and timing of the release of Web site information which assures the accuracy and completeness of information not available when depending on the media for reporting.
3. Web sites provide an efficient, low-cost medium for communicating timely information to investors.
4. The most current information available can be provided to the market and updated as circumstances warrant.
5. Web sites can be used in addition to or, depending on the circumstances, in lieu of, press releases to notify investors of significant events.
6. Web site disclosure can both accelerate and broaden the distribution of timely disclosure information to the market.
7. Web site disclosure can enhance an issuer's reputation in the credit markets and strengthen investor confidence in an issuer.
8. The consistent and ready availability of complete and timely disclosure information can facilitate secondary market liquidity of an issuer's bonds by making them more attractive to investors.
9. Web site disclosure reduces investor inquiries and satisfies investor requests for more accessible and less costly disclosure information.
10. A government should consider posting interim unaudited and/or operating financial information that otherwise routinely prepared by your entity, to help investors and the public understand the finances of your government between annual filings.

However, there are certain burdens associated with providing disclosure information electronically which issuers should evaluate, such as the administrative time, effort and expense necessary to design, deploy and maintain a Web site used for disclosure. In cases in which an government's Web site has been developed for other purposes, a portion of it can be dedicated to information specifically designed for investors with very little or no additional cost. In any case, issuers should evaluate the costs and benefits of using their Web site for disclosure based on their own unique circumstances.

If a Web site is used for disclosure purposes, the government should consider the following in designing, deploying and monitoring the part of their Web site used for disclosure:

1. Terms of use should be included on the Web site so that, prior to accessing the information users are aware of or preferably required to acknowledge limits on how the Web site may be used and what obligations an issuer is undertaking by making disclosure available on its Web site (e.g., the information does not constitute an offer to sell bonds, the historical information speaks as of its date and the issuer has no express or implied obligation to continuously update information).
2. Information solely intended for investors should be segregated from other information and clearly identified as being intended for investors.
3. A formal process for reviewing and approving any information posted on the Web site should be required to ensure the accuracy, consistency and completeness of the information. Statements indicating the most recent date that a web page has been updated should be posted.
4. Care should be taken in the design, organization and selection of information to be included on a Web site to maximize its usefulness to investors.
5. Outdated reports and other stale information (such as prior year's CAFRs or audited financial statements and final Official Statements) should be clearly identified as dated information for historical reference only. Historical or outdated information should be segregated from current information. A "Library" or "Archive" section of the Web site for such information is advisable.
6. Issuers should be familiar with the SEC's Interpretive Release on Use of Electronic Media" or have the any information that is posted on a government's web site or the portion of its Web site dedicated to investors reviewed by counsel (see [www.sec.gov/rules/interp/34-42728.htm](http://www.sec.gov/rules/interp/34-42728.htm)).

7. If a government chooses to post unaudited interim financial information, it must be clearly described as such on the document, and a government may wish to include additional disclaimer language regarding unaudited information.
8. The security of an issuer's Web site should be evaluated to protect it from manipulation by external or unauthorized persons.
9. Issuers should design a system of internal controls to ensure the accuracy, completeness, consistency and freshness of information posted on the Web site.
10. Issuers should not use hyperlinks to other Web sites in their POS and OS because an issuer may be responsible for the accuracy and completeness of the information on the hyperlinked Web sites. If other hyperlinks are included on a Web site, a pop-up screen warning should be used to notify investors they are leaving an issuers' Web site.
11. Issuers should evaluate which products/technology are best suited for the disclosure of information using electronic media.
12. Documents on the Web site used in connection with a sale of bonds (e.g., POSs, audited financial statements and feasibility reports) should be an exact replica of printed versions of the documents. In addition, information on an issuer's Web site intended for use in a bond sale should be segregated from other information.
13. Issuers should consider the need to involve other departments and professionals to ensure that all necessary parties are involved in developing and deploying disclosure information on the Web site.
14. Issuers should consider ease of use and accessibility in designing a Web site for investors and be specific when referencing or addressing a specific place on the issuer's Web site intended for investors. Issuers should also include a contact person to answer questions or provide users with assistance and consider using CUSIP numbers and the required copyright acknowledgment to assist investors in identifying information related to specific bonds.
15. Issuers should post their continuing disclosure filings on their disclosure Web site. However, they should realize that posting their continuing disclosure on the Web site will not satisfy their obligation to file continuing disclosure documents with EMMA. Issuers that choose not to post their continuing disclosure filings on their Web site should consider the efficacy of providing continuing disclosure filings electronically through private sector vendors.
16. It is appropriate for issuers to evaluate the possibility of increased exposure to liability under the securities laws when evaluating the cost/benefit of using a Web site for disclosure. However it should not be given undue weight by a government in determining its best practices.

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- GFOA Best Practice, "Maintaining an Investor Relations Program," GFOA, 2010
- EMMA: <http://emma.msrb.org/>

Approved by the GFOA's Executive Board, October 15, 2010.



## **Web Site Presentation of Official Financial Documents (2009) (ALL)**

**Background.** The Government Finance Officers Association (GFOA) has long encouraged governments to demonstrate accountability and transparency by making financial information of the highest quality readily accessible to citizens and other interested parties. A government's web site is especially well suited for this purpose. Benefits of using the government's web site to communicate financial information include:

- **Heightened awareness.** Many potential users of a government's financial information may only discover that it is available because they find it on the web site.
- **Universal accessibility.** Information furnished on a web site is readily available to a wide range of potential users (e.g., citizens, rating agencies, regulatory agencies, other governments, and the press) without charge.
- **Increased potential for interaction with users.** A web site can offer two-way, multi-conversational, or interactive formats. This capacity may be especially helpful for proposed documents or for citizen surveys.
- **Enhanced diversity.** A web site may offer the possibility of providing the same financial information in a variety of languages, which may be needed pursuant to the policies of a particular governmental entity.
- **Facilitated analysis.** Computerized tools can be used to find, extract, and analyze data presented in electronic form.
- **Increased efficiency.** Presenting all financial information in a single location can help to avoid calls for redundant specialized reports (e.g., reproducing data already presented in the comprehensive annual financial report or the budget document).
- **Lowered costs.** Electronic publication can be accomplished relatively quickly and can reduce or eliminate many of the costs associated with producing a hardcopy report, including those associated with handling and mailing the reports.
- **Contribution to sustainability.** Using a web site to disseminate financial information may reduce paper consumption, thereby contributing to the core value of sustainability.
- **Broadened potential scope.** The use of hyperlinks allows for easy referencing of relevant information from other sites.

While posting financial documents on a web site is a tremendous resource to citizens and an important investor relations tool, governments should be reminded that it does not meet the continuing disclosure responsibilities for issuers of municipal debt set forth in Securities and Exchange Commission Rule 15c2-12.<sup>2</sup>

**Recommendation.** The GFOA encourages every government to use its web site as a primary means of communicating financial information to citizens and other interested parties. Furthermore, the GFOA

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<sup>2</sup> Governments with public debt outstanding are urged to consult GFOA's recommended practice *Using a Web Site for Disclosure*. Issuers of public debt also should familiarize themselves with SEC's Interpretive Release on the "Use of Electronic Media" (see [www.sec.gov/rules/interp/34-42728.htm](http://www.sec.gov/rules/interp/34-42728.htm)).

recommends that a government comply with the following guidelines when presenting official financial documents on its web site:

**Formatting.** The practical usefulness of a document is enhanced when a government observes the following formatting conventions:

- **Consistency with hardcopy version (if any).** If a document is issued in hardcopy form, the web site version should be identical.<sup>3</sup> Any subsequent changes should be made to both.
- **Legibility.** Font size, page layout (i.e., portrait versus landscape), and direction should be consistent throughout the report.
- **Pagination.** Pages should be numbered sequentially.
- **File size.** A single electronic file should be presented for the entire document. Individual files for the various components of large reports might also be presented in view of the limitations that some users face when attempting to download or receive large files. In such situations, the number of individual files should not be so great as to make it difficult to review the material or relate the various sections to one another.

**Technological Infrastructure.** A number of issues related to a government's technological infrastructure should be considered when presenting financial documents on the government's web site:

- **Security.** The security of the web site should be evaluated and all reasonable steps should be taken to protect documents from unauthorized changes.
- **Placement.** A link to the document should appear prominently on the homepage or there should be some other tool for easily locating the document (e.g., internal search tool).
- **Software compatibility.** The software used should be suitable for the particular information being presented and be broadly compatible with other commonly used software.
- **Features.** The downloaded file should allow for basic features such as zooming and continuous page format (e.g., so rows on financial schedules can be viewed on facing pages). A search mechanism should also be available within the document.
- **Instructions.** General user instructions (e.g., how to download Adobe software) should be provided. A notation also may be needed to direct the user on how best to view the document (e.g., laptop or desktop computer versus a handheld device).
- **Linking.** The table of contents should allow the user to go to specific pages with a click of the mouse. The inclusion of bookmarks also can enhance flexibility and maneuverability in navigating the document.
- **Testing.** Web site-based financial documents should be tested to ensure that they will function with different computer operating systems.

**Electronic financial reporting language.** Governments should monitor developments in standardized electronic financial reporting (e.g., extensible business reporting language [XBRL]) and apply that language to their electronic document process when appropriate.

**Distribution.** Electronic publication can also help the government meet the objective of providing financial information on a timely basis. Once published electronically, potential users should be informed that financial documents are available at the web site. Local newspapers, cable television, council meetings, mailings, and the printed document itself (if prepared) can be used for this purpose. For users without access to the Internet, other electronic media (e.g., CDs or flash drives) should be made available

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<sup>3</sup> However, slight variations that may be necessary for practical reasons to prepare the hardcopy information for publication as an electronic document are acceptable. In cases where there is some type of auditor association with a document, it can be helpful to reach an upfront agreement with the auditor on the nature of the revisions that are acceptable in the preparation of the electronic document.

at locations such as local libraries or the city hall. Before electronic publication, the government should consult with their counsel to ensure that any legal issues related to the distribution of the financial information have been appropriately addressed, including compliance with all applicable provincial, state and federal laws and regulations (e.g., American Disabilities Act).

***Information disclaimer.*** If applicable, the web site should prominently notify users that the information in the financial document has not been updated for developments subsequent to its issuance.

***Historical information.*** If a government elects to present documents of prior years, the web site should identify those documents as “dated information for historical reference only” and clearly segregate them from current information. A “library” or “archive” section of the web site is advisable for this purpose.

### **References.**

- GFOA Best Practices
  - Improving the Timeliness of Financial Reports (2008)
  - Using a Web Site for Disclosure (2002)
  - Sustainability (2002)
- *Extensible Business Reporting Language (XBRL) web site*, <http://www.xbrl.org/Home/>

Approved by the GFOA’s Executive Board, February 27, 2009.



## BEST PRACTICE

### **Improving the Timeliness of Financial Reports (2008) (CAAFR)**

**Background.** Financial reports are intended to meet the needs of decision makers. Accordingly, *timeliness* was identified as one of the *characteristics of information in financial reporting* in Concepts Statement No. 1 of the Governmental Accounting Standards Board (GASB), *Objectives of Financial Reporting*. To accomplish this objective, financial reports must be available in time to inform decision making. Therefore, financial reports should be published as soon as possible after the end of the reporting period.

Timely financial reporting cannot be reduced to a well managed “busy season,” but rather requires careful, year-long planning and monitoring<sup>4</sup> (e.g., data processing, audit field work). Sometimes the need for timeliness has to be balanced against the need for reliability, which also was identified as one of the *characteristics of information in financial reporting* identified in GASB Concepts Statement No. 1. While governments certainly should not sacrifice reliability for timeliness, minor gains in precision ought not to be purchased at the price of indefinite delay (e.g., accounting estimates).

Legislative deadlines for submitting financial statements should be viewed as a minimum standard rather than as an ideal objective. The same holds true for the submission deadlines used by various award programs such as the GFOA’s Certificate of Achievement for Excellence in Financial Reporting Program.

The additional cost of more timely financial reporting (e.g., additional staff and overtime) also needs to be considered. As always, the cost to be incurred should never exceed the benefits anticipated.

**Recommendations.** The Government Finance Officers Association (GFOA) makes the following recommendations about ways to improve the timeliness of financial reports for governmental entities.

#### **1. Recording activity throughout the year**

a. *Transactions processing.* A government should undertake a process at least quarterly to ensure the ongoing completeness and accuracy of the data it collects. This process should include appropriate reconciliations to identify needed adjustments, as well as financial analysis of interim management reports to identify anomalous or incomplete data that may need to be corrected. This verification process should be particularly useful in identifying amounts that will need to be estimated as part of the annual verification process so that the data needed to make those estimates at year end can be collected throughout the period. Also, this process should facilitate the recording of certain items, for example,

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<sup>4</sup> Such a year-long process can help a government avoid material auditor-identified adjustments that Statement on Auditing Standards No. 112, *Communicating Internal Control Matters Identified in an Audit*, would require to be reported as a significant deficiency or a material weakness. Refer to the GFOA recommended practice on *Mitigating the Negative Effects of Statement on Auditing Standards No. 112*.

capital assets, throughout the year rather than after the fiscal year has ended.

b. *Accounting policies and procedures.* The government's documented accounting policies and procedures should 1) identify those items that may need to be estimated<sup>5</sup> and 2) set forth the specific steps (including significant assumptions) to be followed in preparing each different kind of estimate. The procedures should specifically address whether each of these items is to be handled during the year, as part of the initial year end closing process, or in the adjustment and analysis process immediately prior to the final year end closing process.

## **2. Closing and financial statement preparation processing**

a. *The annual closing process.* The initial annual close normally occurs within a week to ten days following the end of the period. To avoid delays, all items related to budgetary expenditures (e.g., purchase orders) should be recorded by the end of the period (with exceptions being made only for highly unusual items like natural disasters and major information systems failures).

b. *Component Units.* When a government includes component units (either blended or discretely presented) as part of its financial reporting entity, there needs to be early and ongoing communication with those units to ensure that the government receives all of the information it needs to include them in its own report without delaying its issuance. Experience appears to demonstrate that there is no substitute for one or more face-to-face meetings for this purpose, although ongoing updates normally can be managed effectively by e-mail, telephone, or FAX.

c. *Unforeseen circumstances.* The financial report preparation process and the independent audit may identify items that could affect the amounts reported in the financial statements (e.g., lawsuits; legal or contractual violations that include a monetary penalty; instances of potential or actual fraud or abuse). Considerable time may be needed to definitively resolve such items. In such cases, the inherent uncertainty should not unduly delay the financial report preparation process and the independent audit. Accordingly, it often is better to proceed with the issuance of the financial statements based upon estimates, rather than to delay their issuance.

## **3. Implementation of new accounting standards**

a. *Facilitating implementation of new accounting standards.* To ensure that accounting standards are implemented by their mandated effective date a government should monitor the issuance of final guidance from the Governmental Accounting Standards Board (GASB). Upon issuance of such guidance, a government should determine the fiscal year by which the guidance must be implemented and when steps to implement the guidance should be scheduled prior to and during the year of implementation as well as during the financial statement preparation process. To the extent practical, governments should attempt to implement the guidance by at least the period before implementation is mandated.

## **4. Financial report format and distribution**

a. *Electronic distribution.* To save time and avoid potential delays, the government should initially distribute its financial report electronically (e.g., posting on website, e-mailing an electronic file, or mailing a CD-ROM).

## **5. Contracting for professional services**

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<sup>5</sup> Examples would include items related to derived tax revenues (e.g., sales and income taxes), uncollectible accounts, claims and judgments, the liability for landfill closure and postclosure care costs, and pollution remediation obligations.

- a. *Audit procurement.*<sup>6</sup> The request for proposal (RFP) for the services of an independent auditor should specify a public release date for the financial statements.
- b. *Contracts for professional services other than auditing.* RFPs for nonaudit services that have a bearing on the financial statements (e.g., actuarial services) should specify the public release date of the financial statements and expressly mention that those services need to be completed in time to allow the government to meet that deadline.

Approved by the GFOA's Executive Board, February 22, 2008.

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<sup>6</sup> See GFOA's best practice on *Audit Procurement*.



## BEST PRACTICE

### **Using the Comprehensive Annual Financial Report to Meet SEC Requirements for Periodic Disclosure (1996 and 2006) (CAAFR)**

**Background.** Securities and Exchange Commission (SEC) Rule 15c2-12 requires that issuers of municipal securities or obligated persons undertake in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information to various information repositories. Rule 15c2-12 does not establish a standardized format for the presentation of periodic financial disclosures. Rather, the required annual financial information may be presented through any disclosure document or set of documents, whatever their form or principal purpose, that includes the necessary information. The appropriate means of meeting periodic disclosure requirements is determined by each government in consultation with appropriate legal counsel.

The Government Finance Officers Association (GFOA) is on record recommending that all state and local governments prepare and publish a comprehensive annual financial report (CAFR).<sup>7</sup> GFOA believes that the CAFR should be the normal means for a government to meet its financial reporting responsibilities.

**Recommendation.** GFOA recommends that governments subject to SEC Rule 15c2-12 consider using the CAFR as their disclosure document for providing information useful to existing and potential investors in the secondary market and meeting their obligation to provide annual disclosure for the secondary market, as required by Rule 15c2-12. All the same, for practical reasons, governments that elect to use the CAFR in this manner should be sure that the undertaking commits the government only to the periodic disclosure of specified annual financial information as provided in the amendments to Rule 15c2-12, and not to the periodic issuance of a CAFR.

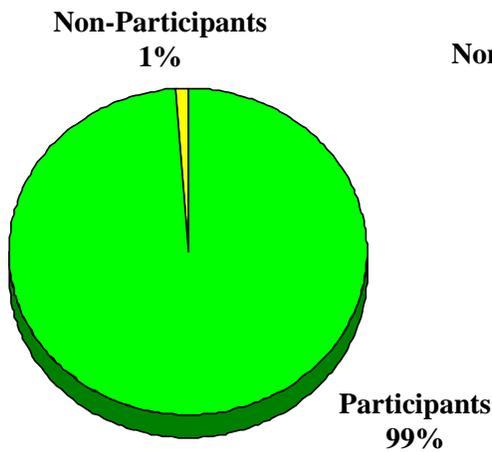
Approved by the GFOA's Executive Board, February 24, 2006.

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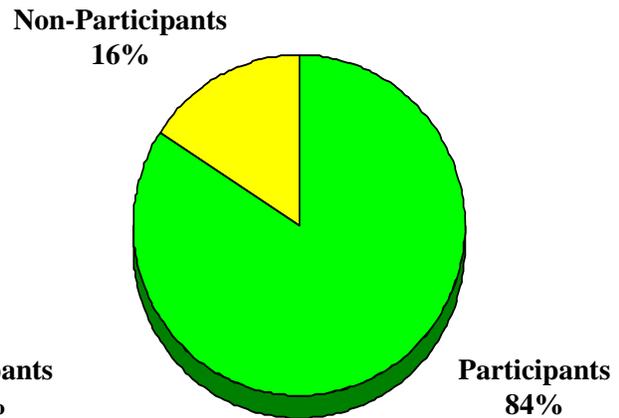
<sup>7</sup> See GFOA's best practice on "Governmental Accounting, Auditing, and Financial Reporting Practices" (1983 and 1997).

# GFOA Certificate of Achievement

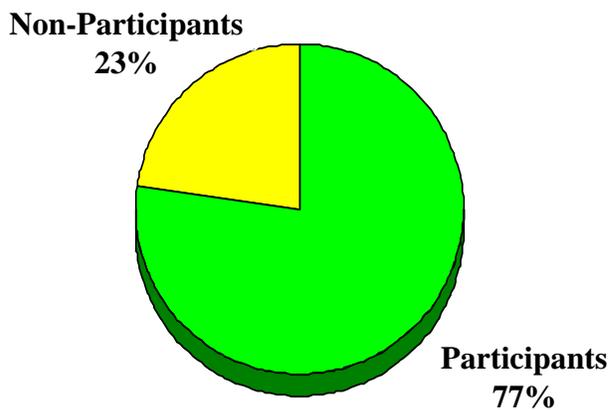
## Percentage of City Participants Based on Population



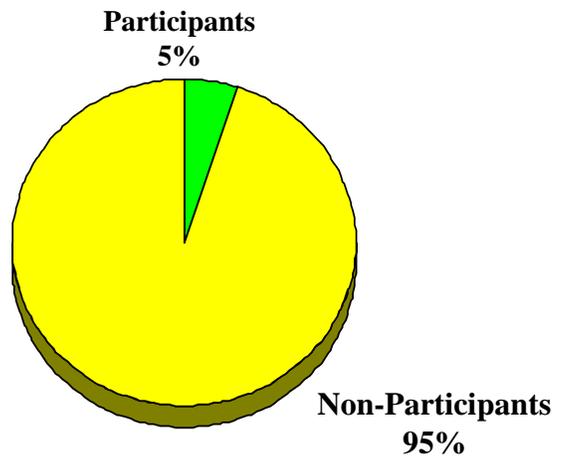
**% of Cities over 200,000**



**% of Cities over 100,000**

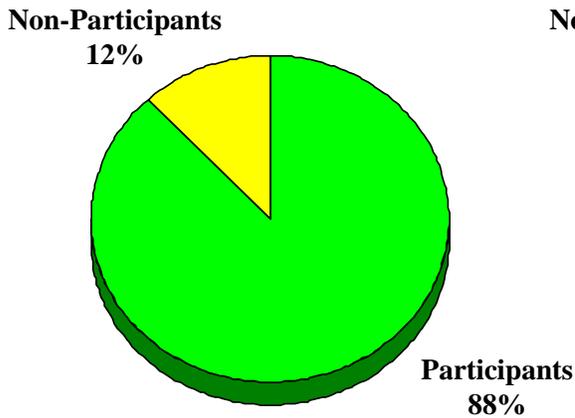


**% of Cities over 50,000**

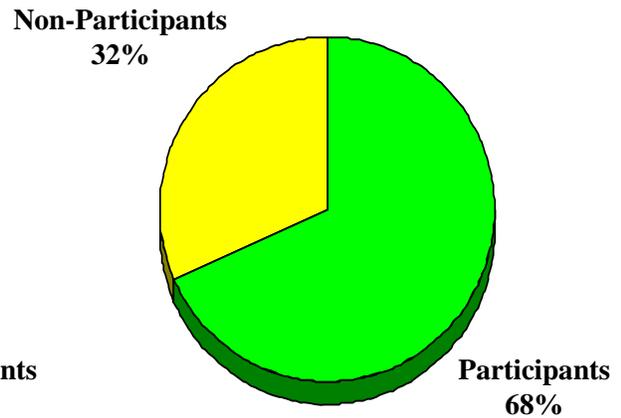


**% of All Cities**

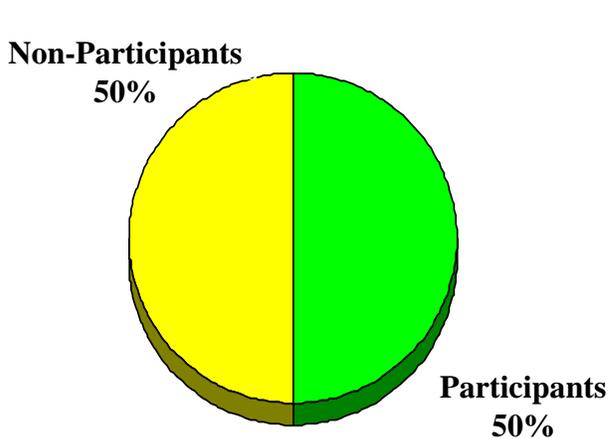
# GFOA Certificate of Achievement Percentage of County Participants Based on Population



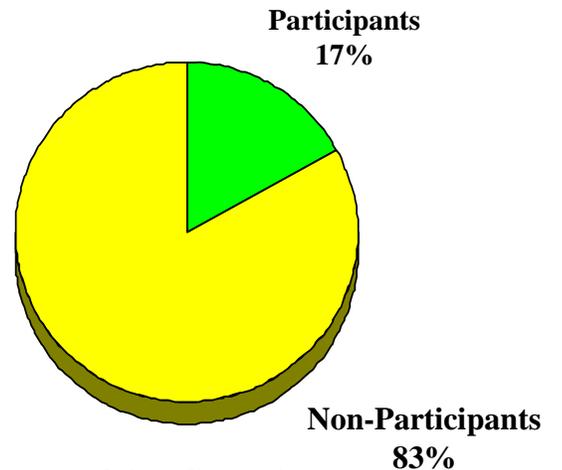
**% of Counties over 250,000**



**% of Counties over 100,000**

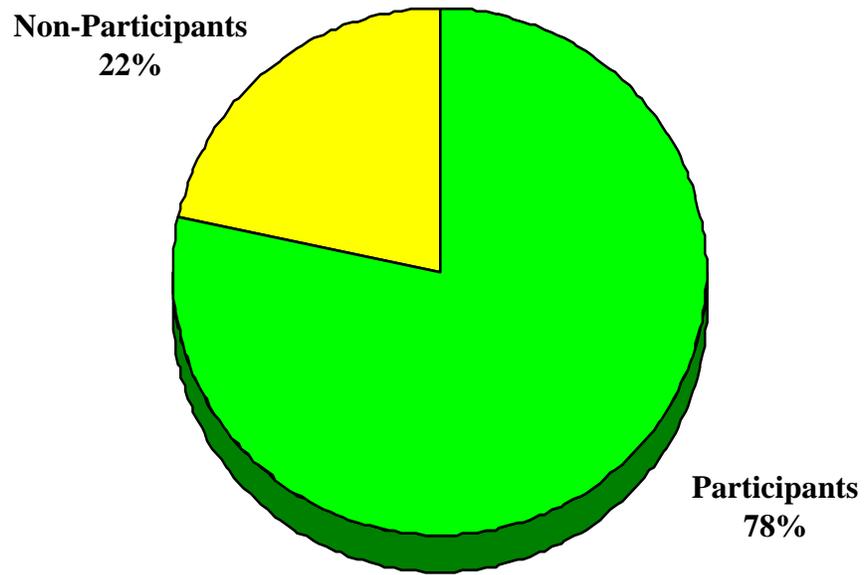


**% of Counties over 50,000**



**% of All Counties**

# GFOA Certificate of Achievement Percentage of State Participants



**% of States**