AMENDED STATE EXAMINER DIRECTIVE 2016-1

Date: August 29, 2018

Subject: GAAP Annual Financial Reports Required for Issuance of Bonds

Authority: Ind. Code § 5-1-11.5-2; Ind. Code § 5-1-11.5-3; Ind. Code § 5-1-11.5-4

Application: This Directive applies to all counties, municipalities, and schools who issue bonds

From: Paul D. Joyce, CPA, State Examiner

House Enrolled Act 1009, enacted in 2017, amended Ind. Code § 5-1-11.5 to require certain units to file annual financial reports in accordance with generally accepted accounting principles (GAAP) in order to issue bonds. The relevant code sections state the following:

Sec. 2. As used in this chapter, "bonds" means any bonds, notes, or other evidences of indebtedness, whether payable from property taxes, other taxes, revenues, fees, or any other source. However, the term does not include notes, warrants, or other evidences of indebtedness that have a maturity of not more than five (5) years and that are made in anticipation of and to be paid from revenues of the school corporation, county, or municipality.

Sec. 3. This section applies only to a school corporation that has an ADM of more than fifteen thousand (15,000) for the school corporation's most recent fall count. Notwithstanding any other law, a school corporation subject to this section may not issue bonds after August 15, 2020, unless the school corporation has for its preceding budget year prepared an annual financial report using the modified accrual basis of accounting in accordance with generally accepted accounting principles. However, upon request of a school corporation to the state examiner, the state examiner may waive the requirement under this section if the state examiner determines that a waiver is in the best interest of the school corporation.

Sec. 4. This section applies only to the following:

(1) A county that has a population of more than one hundred thousand (100,000).

(2) A municipality that has a population of more than seventy-five thousand (75,000).

Notwithstanding any other law, a county or municipality subject to this section may not issue bonds after June 30, 2020, unless the county or municipality has for its preceding budget year prepared an annual financial report using the modified accrual basis of accounting in accordance with generally accepted accounting principles. However, upon request of a county or municipality to the state examiner, the state examiner may waive the requirement under this section if the state examiner determines that a waiver is in the best interest of the county or municipality.

I. Counties and Municipalities

Counties and municipalities report on a calendar year. Thus, section 4 first applies to the period January 1, 2019 to December 31, 2019. In other words, counties with a population greater than one hundred thousand (100,000) and municipalities with a population greater than seventy-five thousand (75,000) may not issue bonds after June 30, 2020 unless they file with the State Examiner on or before March 1, 2020, an annual financial report prepared in accordance with GAAP in a Governmental Accounting Standards Board (GASB) reporting format for the period January 1, 2019 to December 31, 2019. If a county or municipality chooses to continue maintaining records on a cash basis for conversion to GAAP financial statement, it must submit a cash basis financial report into Gateway by March 1. SBOA will then grant an automatic extension of 90 days for the submission of GAAP financial statements. Once financial statements have been reported in a GASB format, all future years’ reporting will be required to be in a GASB format as well.

II. Schools

Schools may budget on either a calendar year or a fiscal year. Section 3 applies to calendar year budgets beginning with January 1, 2019 to December 31, 2019 or fiscal year budgets beginning with July 1, 2019 to June 30, 2020.

For bond issuance after August 15, 2020, the financial information due to be submitted to the State Board of Accounts via Gateway by August 29, 2020 must include GAAP financial statements in a GASB report format for the fiscal year July 1, 2019 to June 30, 2020. Once financial statements have been reported in a GASB format, all future years’ reporting will be required to be in a GASB format as well.

III. Waiver Requests

Waivers to the statutory requirement for GAAP financial statements will only be granted in the most extraordinary circumstances. The mere foreknowledge and acknowledgement that financial statements will not meet any or some of the GAAP requirements is not a sufficient basis for a waiver. In most instances where complete GAAP statements cannot be provided, a qualified opinion of the financial statements will acknowledge those deficiencies. At the very least for consideration of waiver, it must be shown that there is in place a process to prepare GAAP statements in GASB format. All waiver requests must be in writing and provide a detailed explanation why a waiver is requested, including what steps, if any, have been taken by the county, municipality, or school corporation to comply with generally accepted accounting principles for financial accounting and reporting. The waiver request must be submitted at least sixty (60) days prior to the end of the calendar year, or November 1, for counties and municipalities.

1 Financial reports are required to be “filed with the state examiner not later than sixty (60) days after the close of each fiscal year. . . .” Ind. Code § 5-11-1-4(a).
municipalities, and May 1 for school corporations. Waiver requests may be sent via e-mail to waiverrequest@sboa.in.gov, or by U.S. Mail to the following address:

State Board of Accounts  
Attn: GAAP Waiver Request  
302 West Washington Street, Room E418  
Indianapolis, IN 46204

All waiver requests will be approved or denied by the State Examiner in writing within thirty (30) days of receipt of the request.

If a waiver request is granted, it will be effective for one (1) year only.

This Directive may be amended from time to time and may be rescinded at any time in writing by the State Examiner or a Deputy State Examiner.

Paul D. Joyce, CPA  
State Examiner