Research Brief:

THE TIMELINESS OF FINANCIAL REPORTING BY STATE AND LOCAL GOVERNMENTS COMPARED WITH THE NEEDS OF USERS

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March 2011

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Summary

The timeliness of financial reporting is perhaps the most frequent and common concern expressed to the Governmental Accounting Standards Board (GASB) by the users of state and local government financial reports. The GASB engaged in the research summarized in this document to answer two questions:

- How long after the end of the fiscal year does it take governments to issue financial reports prepared in conformity with generally accepted accounting principles?
- How does the passage of time between fiscal year-end and issuance of the financial report affect the usefulness of financial report information for decision-making?

Time-to-Issuance

The GASB reviewed the financial reports of the 50 states, 100 largest counties and localities, and 50 largest independent school districts and special districts. The largest local and county governments and independent school districts issued their financial reports approximately 6 months after fiscal year-end on average during fiscal years 2006–2008. State governments averaged closer to 7 months (199 days), whereas special districts averaged about 4 months. Overall, 73 percent of the largest governments issued their reports within 6 months; 2 percent took longer than one year.

A random selection of smaller county governments (annual revenues between $10 million and $100 million) took an average of 8 months to issue their financial reports, 2 months longer than the large-county average. Smaller local governments issued their reports within the same basic timeframe as the largest local governments (an average of 6 months). Smaller special districts took an average of 2 additional months to issue their financial reports, compared with the largest special districts. The smaller independent school districts included in this research, on the other hand, averaged less than 5 months to issue their reports, or 1.5 months faster than their larger counterparts. Overall, under 46 percent of the smaller governments issued their reports within 6 months, and 7 percent took longer than one year.

Effects on Usefulness

Financial report information retains at least some of its usefulness to municipal bond analysts, legislative fiscal staff, and researchers at taxpayer associations and citizen groups for up to 6 months after fiscal year-end. However, the relative usefulness of that information diminishes quickly: 89 percent of respondents to a survey rated information received within 45 days as "very useful," but that proportion dropped to 44 percent for information received within 3 months and fewer than 9 percent for information received within 6 months.

A comparison of the survey results with the time-to-issuance findings suggests that the usefulness of the information was seriously diminished due to the timing of reporting in 23 percent of the larger government financial reports and 44 percent of the smaller government financial reports.

Introduction

The Governmental Accounting Standards Board (GASB) identifies timeliness as one of the six qualitative characteristics that financial information is expected to possess if it is to communicate effectively, along with relevance, reliability, understandability, comparability, and consistency (Concepts Statement No. 1, *Objectives of Financial Reporting*, paragraphs 62–68). Timely information may be defined as information that is available "soon enough after the reported events to affect decisions or assessments of accountability" (Suggested Guidelines for Voluntary Reporting, *SEA Performance Information*, paragraph 44). In the context of audited annual financial reports, the issue of timeliness centers on the amount of time that elapses between the end of the fiscal year being reported on and the date the financial report becomes available to the public.

The question may be asked, "When is the reported information most useful for making decisions and assessing accountability?" Similarly, "At what point does the usefulness of the reported information begin to diminish? How much does usefulness diminish as time passes?" These questions have gone largely unanswered.

In 2005, the GASB conducted an extensive study of the needs of users of governmental financial information, consisting of 115 in-depth interviews with over 250 people. Each interview concluded with the open-ended question, "What issues would you like to bring to the GASB's attention?" The overwhelming first response from the interviewees was that financial reporting needed to be timelier.

The GASB does not require that financial reports be issued by a specific date (nor does it have the power to do so). However, the GASB does consider timeliness when developing its standards of accounting and financial reporting. The GASB wishes to consider how standards setting can further enable governments to issue reports on a timely basis. The first step in that consideration is to understand two key issues: (1) How long does it take governments to issue their audited financial reports? (2) How does the passage of time affect the usefulness of the information in audited financial reports? This research study seeks to answer those two questions.

Background

The substantial body of literature regarding "audit timing," or the period between the end of the fiscal year and the date of the audit report, that has developed in the corporate sector[1] is not matched in the government sector. The available studies of governments have settled on

[1] See, for example: Robert H. Ashton, John J. Willingham, and Robert K. Elliott, "An empirical analysis of audit delay," *Journal of Accounting Research* 25 (1987), pp. 275–292; E. Michael Bamber, Linda Smith Bamber, and Michael P. Schoderbek, "Audit Structure and Other Determinants of Audit Report Lag: An Empirical Analysis," *Auditing: A Journal of Practice* 12 (1993), pp. 1–23; B. Davies and G.P. Whittred, "The association between selected corporate attributes and timeliness in corporate reporting: Further analysis," *Abacus* 16 (1980), pp. 48–60; and G.P. Whittred and I. Zimmer, "Timeliness of financial reporting and financial distress," *The Accounting Review* 59 (1984), pp. 287–295.

three groups of influencing factors—competency of the government's financial management, competency of the auditor, and characteristics and complexity of the government.[2]

Most recently, Merritt Research Services published averages for issuers of municipal bonds in its database, covering fiscal years 2007–2009.[3] Average audit timing for general purpose governments (168 days to 178 days) was found to be about a month or more longer than for many types of special-purpose governments (ranging from 110 days for toll roads to 152 days for school districts and airports).

Little, if any, literature existed until recently on the topic of how users of governmental financial information view timeliness. In a broader study of bond analyst views on disclosure, Robbins and Simonsen asked survey respondents to label audited financial statements received within three months, six months, nine months, and so on as completely useful, somewhat useful, less useful, or no longer useful.[4] They found that 70 percent of respondents considered audited financial statements received within 9 months to be completely useful. On the other hand, 89 percent identified as no longer useful audited financial statements received after 10 months.

The GASB study builds on this literature in at least six significant ways. First, it concentrates on the period to actual issuance of the financial report, which is later than the date on the audit report. From the perspective of the financial statement user, the concern is when the information is publicly available, not when the auditor has concluded the audit fieldwork (normally, the date of the audit report). Second, this study examines time-to-issuance data for three consecutive years, thereby diminishing the potential impact of history bias due to implementation of a new accounting system, personnel turnover, new auditing standards, or new accounting and financial reporting pronouncements in any given year. Third, this study also extends the population to include states, a broader set of large governments, and smaller governments than encompassed by other studies, and then draws larger random samples from those populations. Fifth, it updates the findings on time to issuance considerably, considering that most of the available literature examined fiscal years in the 1990s. Lastly, this study extends Robbins' and Simonsen's research by including a broader population of financial information users and by more directly questioning whether the information in financial statements is useful to decision making.

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[2] Most notably, see: Peggy D. Dwyer and Earl R. Wilson, "An Empirical Investigation of Factors Affecting the Timeliness of Reporting by Municipalities," *Journal of Accounting and Public Policy* 8 (1989), pp. 29–55; Laurence E. Johnson, "Further Evidence on the Determinants of Local Government Audit Delay," *Journal of Public Budgeting, Accounting & Financial Management* 10 (1998), pp. 375–397; Laurence E. Johnson, Stephen P. Davies, and Robert J. Freeman, "The effect of seasonal variations in auditor workload on local government audit fees and audit delay," *Journal of Accounting and Public Policy* 21 (2002), pp. 395–422; Rowan Jones and Gary Giroux, "Comparative Local Government Auditing: Audit Timing in the US and the UK," in V. Montesinos and J.M. Vela, eds., *Innovations in Governmental Accounting* (Netherlands: Kluwer Academic Publishers), pp. 343–348; Andrew J. McClelland and Gary Giroux, "An empirical analysis of auditor report timing by large municipalities," *Journal of Accounting and Public Policy* 19 (2000), pp. 263–281; and Jeff L. Payne and Kevan L. Jensen, "An examination of municipal audit delay," *Journal of Accounting and Public Policy* 21 (2002), pp. 1–29.

[3] Merritt Research Services. *Just How Slowly Do Municipal Bond Annual Audit Reports Waddle in after the Close of the Fiscal Year?* (Hiawatha, IA: Merritt Research Services, 2010)

[4] Mark Robbins and Bill Simonsen, "The Quality and Relevance of Municipal Bond Disclosure: What Bond Analysts Think," *Municipal Finance Journal* 31 (2010), pp. 1–20.

Methodology—Time-to-Issuance

This portion of the GASB research study was designed to include data from fiscal years ending in 2006, 2007, and 2008—the three most recent years for which all or virtually all audited annual financial reports (AFRs) would have been issued. Hand collection of data began in March 2010, at which point most, but not all, AFRs for fiscal years ending June 30, 2009, and few, if any, AFRs for fiscal years ending December 31, 2009, would have been available.

All data were hand-collected from governments issuing AFRs compliant with generally accepted accounting principles (GAAP), as follows:

- 50 state governments
- 100 largest county governments (by population)
- 100 largest local governments (by population)
- 50 largest independent school districts (by enrollment)
- 50 largest special districts (by annual revenue)
- Random sample of 50 county governments with annual revenues of at least $10 million but less than $100 million
- Random sample of 50 local governments with annual revenues of at least $10 million but less than $100 million
- Random sample of 25 independent school districts (ISD) with annual revenues of at least $10 million but less than $100 million
- Random sample of 25 special districts with annual revenues of at least $10 million but less than $100 million.

The random samples were drawn from the list of 89,527 governments included in the 2007 Census of Governments,[5] sorted by type of government and annual revenue. The population of governments with at least $10 million but less than $100 million of annual revenue includes 1,593 counties, 3,879 local governments, 6,363 independent school districts, and 1,739 special districts. Because AFRs for some of the governments in the initial random samples could not be obtained and others were not GAAP-based AFRs, additional sampling was conducted to come as close as possible to the original goal of 150 governments.

A sample larger than 150 was not drawn because of the expected difficulty of collecting data from relatively smaller governments. For the same reason, samples were not drawn from the population of governments with less than $10 million in annual revenue. All other factors being equal, the difficulty of obtaining data generally increases as the size of the government decreases (as measured by annual revenues).

The hand collection of AFRs from the governments proceeded in several steps. If an AFR was not located for each of the three fiscal years, then researchers would proceed to the next step.

[5] U.S. Bureau of the Census, 2007 Census of Governments, "Local Governments and Public School Systems by Type and State: 2007," <http://www.census.gov/govs/cog/> accessed April 29, 2010.

1. Search of the individual government's website
2. Search of central databases, such as state auditors' websites
3. Email request to government if an appropriate email address (such as for a chief financial officer) could be identified
4. Telephone request to government if an appropriate email address could not be identified or if a government did not respond to the email
5. A formal request by traditional mail.

The requests for AFRs (steps 3–5) stated a preference for electronic versions, if available.

In the attempt to obtain three GAAP-based AFRs from each of the 350 "larger" governments included in the study (1,050 AFRs total), 975 were collected. In addition, data was collected from another 16 AFRs, though the AFRs themselves were not obtained. In sum, a total of 991 observations were available for analysis or 94 percent of the 1,050 possible observations.

A total random sample of 193 "smaller" governments with annual revenues between $10 million and $100 million provided for 579 possible AFRs. A total of 376 GAAP-based AFRs were collected from these governments or 65 percent.

Methodology—Relation of Usefulness to Timeliness

A survey of users of governmental financial information was conducted between July and September 2010. The survey posed the following question for information received within 5 time frames—45 days, 3 months, 6 months, 12 months, and later than 12 months:

> *How useful is or would information be if published **[time frame]** after the end of the fiscal year?*

The survey employed a five-point Likert scale, with 1 being "not useful at all" and 5 being "very useful," plus a "don't know" option. (The survey instrument can be found in the appendix.)

The survey was administered via the Internet, and invitations were sent by email to the members of three organizations: National Federation of Municipal Analysts (NFMA); Governmental Research Association (GRA); and National Association of Legislative Fiscal Officers (NALFO). The NFMA is an organization of people working as bond analysts or in similar capacities in the municipal bond market. The GRA comprises citizen groups and taxpayer associations in almost every state. The NALFO is part of the National Conference of State Legislatures and represents fiscal staff working in state legislatures. The NFMA list contained 1,281 persons, of which 101 emails were returned due to outdated addresses. The GRA list comprised 55 persons and the NALFO list 139, with no returned emails. The total sample, therefore, is 1,374.[6]

[6] These organizations' email lists were intended to be supplemented by emails sent to persons in the GASB's constituent database who identified themselves as legislative, oversight, citizen group, taxpayer association, rating agency, creditor—mutual fund, creditor—insurance company, creditor—bank, or bond insurer. The GASB constituent database would have added 111 persons to the bond analyst group, 46 to citizen/taxpayer, and 81 to legislative and oversight. However, there was considerable duplication between the GASB database and the NFMA,

There were a total of 223 responses to the survey, for a response rate just over 16 percent. However, there were 11 duplicate responses, 6 responses from persons who registered at the survey website but did not answer any questions, and 12 responses from persons who identified themselves with entities that were neither citizen/taxpayer, legislative/oversight, nor bond industry. As a result, there were a total of 194 usable responses, or an overall response rate of 14 percent. This is a low response rate, though not unusual for surveys of financial statement users.

By far, most of the usable responses (160) came from persons in the municipal bond industry. Citizen and taxpayer groups accounted for 16 responses and legislative and oversight the remaining 18. The respective response rates were 14 percent for bond analysts, 29 percent for citizen/taxpayer groups, and 13 percent for legislative/oversight.

Limitations

There are certain evident limitations to this research. Regarding the time-to-issuance data, conclusions cannot be extended to governments with annual revenue below $10 million because they were not included in the sampling. Also, the size of the sample of governments with annual revenue between $10 million and $100 million may not be sufficiently large to generalize the results to the larger population.

Further, it should be noted that the date on the letter of transmittal may not be the date that a financial report "hits the street" and is actually available to users. Consider, for example, that the letter of transmittal date for nearly three-quarters of the state AFRs was exactly the same as the date on the auditor's report.

Regarding the user survey results, the low response rate may undermine the generalizability of the findings to the broader population of bond analysts, taxpayer associations, and legislative and oversight bodies. Even if the findings accurately represent these user groups, they cannot be generalized to other types of users of governmental financial information, such as legislators, media, and individual taxpayers. However, the groups included in this study tend to be the most frequent users of AFRs.

Analysis of Results

This section presents the results of both parts of the study—the investigation of time-to-issuance and the survey of financial information users. The hand collection of AFRs for the former part provided useful information about the availability of financial reports and the relative ease with which they can be obtained, as well as the level of compliance with GAAP. Therefore, the first two parts of this section address those issues, followed by the main results of the study.

GRA, and NALFO lists, and consequently the GASB database emails were not likely to have appreciably increased the size of the samples. If there were no duplication at all, the total distribution of the survey would have been 1,612, and the response rate would have been 12 percent.

Availability of AFRs

With a group of 350 "large" governments and a period of 3 fiscal years, a total of 1,050 AFRs were expected to be collected. The search of individual governments' websites and central databases yielded 926 AFRs[7] or 88 percent of the target collection of 1,050. (See Table 1.) An additional 86 AFRs were collected via direct request to the government, bringing the total number of AFRs collected to 1,012 or 96 percent.

Table 1
Methods of Data Collection and GAAP Conformity
Fiscal Years 2006, 2007, and 2008 Combined
Larger Governments

		States	Counties	Localities	Independent School Districts	Special Districts	All Governments
A	**Total Entities**	50	100	100	50	50	350
B	**Possible Number of AFRs** (A x 3)	150	300	300	150	150	1,050
C	**AFRs Found Online**	147	273	284	121	101	926
D	**Percentage of Possible AFRs** (C ÷ B)	98.0%	91.0%	94.7%	80.7%	67.3%	88.2%
E	**AFRs Collected by Email or Mail**	3	20	8	24	31	86
F	**Total AFRs Collected** (C + E)	150	293	292	145	132	1,012
G	**Percentage of Possible AFRs** (F ÷ B)	100.0%	97.7%	97.3%	96.7%	88.0%	96.4%
H	**Non-GAAP AFRs**	3	22	6	3	3	37
I	**Total GAAP AFRs** (F - H)	147	271	286	142	129	975
J	**Percentage of Total AFRs Collected** (I ÷ F)	98.0%	92.5%	97.9%	97.9%	97.7%	96.3%
K	**Additional Years of Data Collected**	-	5	8	-	3	16
L	**Total Observations** (I + K)	147	276	294	142	132	991
M	**Percentage of Possible AFRs** (L ÷ B)	98.0%	92.0%	98.0%	94.7%	88.0%	94.4%

The availability rates for each type of government were all high. AFRs for all but one state were found online. AFRs could be found on online for at least 1 year for 96 of the 100 largest counties and 97 of the 100 largest localities; 98 percent of the county AFRs and 97 percent of the local AFRs were obtained overall for the 3 years. School district AFRs could be found online for at least 1 year for 44 of the 50 largest districts; for the full 3 years, 97 percent of the AFRs were obtained. Special district AFRs were somewhat more difficult to obtain, but were nonetheless generally obtainable. Special district AFRs were found online for at least 1 year for 39 of the 50 largest, and 88 percent of the AFRs for all 3 years were collected.

The AFRs of relatively smaller governments—those with annual revenues between $10 million and $100 million—are not as readily obtainable. (See Table 2.) A total of 193 governments were randomly selected, for which a possible 579 AFRs could be collected. Overall, 41 percent of those AFRs were available online, ranging from 55 percent for counties to 11 percent for special districts. Including AFRs obtained by mail or email, a total of 70 percent

[7] Large special district governments generally do not publish an AFR per se but, rather, include their audited financial statements within an "annual report." The term *AFR* encompasses special district government annual reports.

of the AFRs were obtained, ranging from 79 percent of the county AFRs to 54 percent of the school district AFRs.

Table 2
Methods of Data Collection and GAAP Conformity
Fiscal Years 2006, 2007, and 2008 Combined
Smaller Governments

		Counties	Localities	Independent School Districts	Special Districts	All Governments
A	**Total Entities Randomly Selected**	61	64	35	33	193
B	**Possible Number of AFRs** (A x 3)	183	192	105	99	579
C	**AFRs Found Online**	100	98	29	11	238
D	**Percentage of Possible AFRs** (C ÷ B)	54.6%	51.0%	27.6%	11.1%	41.1%
E	**AFRs Collected by Email or Mail**	44	47	28	46	165
F	**Total AFRs Collected** (C + E)	144	145	57	57	403
G	**Percentage of Possible AFRs** (F ÷ B)	78.7%	75.5%	54.3%	57.6%	69.6%
H	**Non-GAAP AFRs**	31	28	13	3	75
I	**Total GAAP AFRs** (F - H)	113	117	44	54	328
J	**Percentage of Total AFRs Collected** (I ÷ F)	78.5%	80.7%	77.2%	94.7%	81.4%
K	**Additional Years of Data Collected**	18	13	8	9	48
L	**Total Observations** (I + K)	131	130	52	63	376
M	**Percentage of Possible AFRs** (L ÷ B)	71.6%	67.7%	49.5%	63.6%	64.9%

GAAP Conformity

The vast majority of the larger governments prepare their AFRs on a GAAP basis. GAAP-based observations totaled 991 or 94 percent of the possible 1,050. Observations combine collected AFRs and information received directly from GAAP governments for which AFRs could not be obtained. Just 37 of the AFRs collected were not GAAP-based, less than 4 percent. With the exception of counties (under 93 percent), the other governments prepared GAAP-based AFRs 98 percent of the time.[8]

Fully 81 percent of the AFRs collected for the smaller governments conformed to GAAP. Special district AFRs were GAAP-based 95 percent of the time, as were 81 percent of local government AFRs, 79 percent of counties, and 77 percent of school districts. These proportions may not be generalizable to smaller governments as a whole, because the AFRs that were not collected may be more likely to be non-GAAP, which would lower the proportions.

[8] The lower county proportion is due in part to the presence of 15 New Jersey county AFRs among the 293 collected county AFRs (5 percent). The state of New Jersey requires general purpose governments to prepare financial statements using a statutory basis of accounting rather than GAAP.

Time-to-Issuance

One main purpose of this research was to determine how long after the end of the fiscal year it takes governments to issue their AFRs. This was determined by collecting data about the fiscal year-end of each government, the date on the AFR's letter of transmittal, and the date on the auditor's report. Time-to-issuance generally was calculated as:[9]

Letter of transmittal date – Fiscal year-end date = Days-to-issuance

In general, the letter of transmittal date should indicate when the AFR was issued and available to the public.[10] In a few cases, though, the date on the auditor's report was later than the date on the letter of transmittal. In these instances, time-to-issuance was calculated as:

Auditor's report date – Fiscal year-end date = Days-to-issuance

The rationale for this decision is that the AFR could not be issued before the audit fieldwork was completed and the auditor's report was dated, regardless of the date of the letter of transmittal. In actuality, among the larger governments, 5 state AFRs, 15 county AFRs, 18 local AFRs, and 8 ISD AFRs had auditor's report dates later than their letter of transmittal dates.[11] One state routinely dated its transmittal letter nearly two months after the auditor's report date, and two others dated their letters more than two weeks earlier than the auditor's report. Several larger counties dated their transmittal letters 40 to 50 days after the auditor's report date, and some larger localities about 3 months afterward. For the majority of governments included in this study, however, the two dates were exactly the same.

It should be noted that the date of the letter of transmittal or auditor's report (whichever is applicable) may be the date the AFR was officially "transmitted," but not the date that it actually was posted to a website or otherwise became available. The implication is that the results presented here should be viewed as a minimum, and it is likely that the actual days-to-issuance is longer.

All governments included in the study—both larger and smaller—averaged 165 days between fiscal year-end and date of issuance, or five-and-a-half months. However, there is considerable variation among government types and distinct differences between larger and smaller governments.

[9] In relatively few instances, a government dated its letter of transmittal with only the month and year. To avoid systematically over- or underestimating time-to-issuance for these instances, the date was identified as the 15th of the month.

[10] In the past, the time between the letter of transmittal date and the actual public availability of the AFR could be significant: More than half of the municipalities observed by Dwyer and Wilson took two or more additional months beyond the transmittal date to print and mail their AFRs. However, with the advent of electronic transmission of AFRs via websites and email, this additional delay is not likely to be as significant.

[11] Because most special districts in this study did not prepare a comprehensive annual financial report (CAFR), most did not have a letter of transmittal, a required CAFR feature. Those that did prepare a CAFR all dated the letters later than the audit opinion.

States and larger counties, localities, and school districts tend to congregate around a six-month time-to-issuance. (See Table 3.) These 4 types of governments have medians ranging from 165 days to 177 days, and their average days-to-issuance range from 172 days to 199 days. Nearly two-thirds of the GAAP AFRs issued by states in fiscal years 2006–2008 were issued within six months or less. (See Table 4 and Exhibit A.) Eighty-one percent of county AFRs, 74 percent of local government AFRs, 75 percent of the school district AFRs, and 92 percent of special district AFRs were issued within 6 months in fiscal years 2006–2008. (See Exhibits B, C, D, and E.)

Table 3

Descriptive Statistics: Days-to-Issuance
Fiscal Years 2006, 2007, and 2008 Combined
Larger Governments

	Mean	Median	Maximum	Minimum
States	199.12	177	375	89
Counties	172.17	167	661	41
Localities	181.70	173	647	74
Independent School Districts	188.40	165	585	78
Special Districts	126.39	120	294	43
Total	174.69	168	661	41

The six-month period (which is commonly used as a benchmark) is likely explained by the fact that the majority of these governments (except for the special districts) prepare a comprehensive annual financial report (CAFR) and submit it to the financial reporting certificate programs of either the Government Finance Officers Association or the Association of School Business Officials International. Both programs require that the CAFR be submitted within six months after a government's fiscal year-end.[12]

Table 4

Days-to-Issuance Frequency Analysis
Fiscal Years 2006, 2007, and 2008 Combined
Larger Governments

	Time-to-Issuance (Months)					
	0–3	4–6	7–9	10–12	12+	Total
Number of AFRs						
States	2	95	35	13	2	147
Counties	7	217	42	5	5	276
Localities	6	212	60	11	5	294
Independent School Districts	1	105	23	6	7	142
Special Districts	25	97	9	1	0	132
All Governments	41	726	169	36	19	991
Percentage of Total AFRs						
States	1.4%	64.6%	23.8%	8.8%	1.4%	100.0%
Counties	2.5%	78.6%	15.2%	1.8%	1.8%	100.0%
Localities	2.0%	72.1%	20.4%	3.7%	1.7%	100.0%
Independent School Districts	0.7%	73.9%	16.2%	4.2%	4.9%	100.0%
Special Districts	18.9%	73.5%	6.8%	0.8%	0.0%	100.0%
All Governments	4.1%	73.3%	17.1%	3.6%	1.9%	100.0%

[12] Both programs do, however, grant extensions under certain circumstances.

Exhibit A
States: AFRs Issued by Month after Fiscal Year-End
Fiscal Years 2006–2008

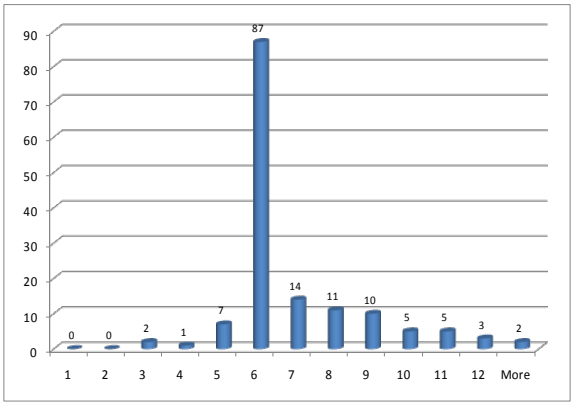


Exhibit B
Larger Counties: AFRs Issued by Month after Fiscal Year-End
Fiscal Years 2006–2008

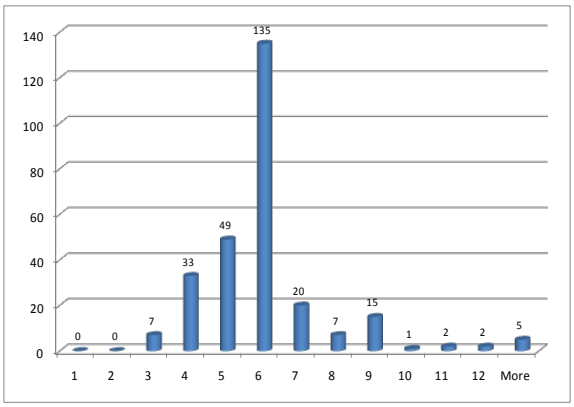


Exhibit C
Larger Localities: AFRs Issued by Month after Fiscal Year-End
Fiscal Years 2006–2008

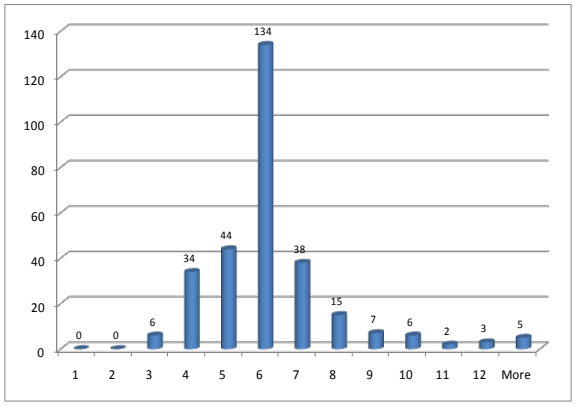


Exhibit D
Larger ISDs: AFRs Issued by Month after Fiscal Year-End
Fiscal Years 2006–2008

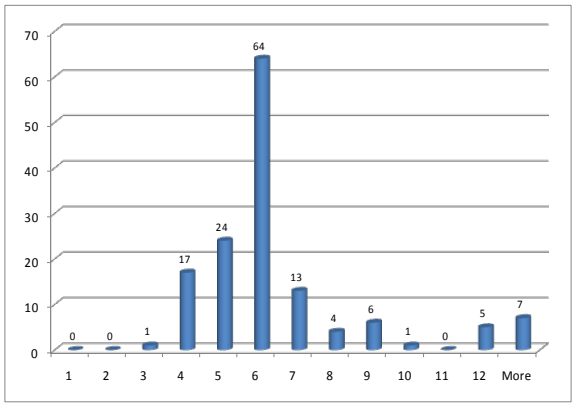
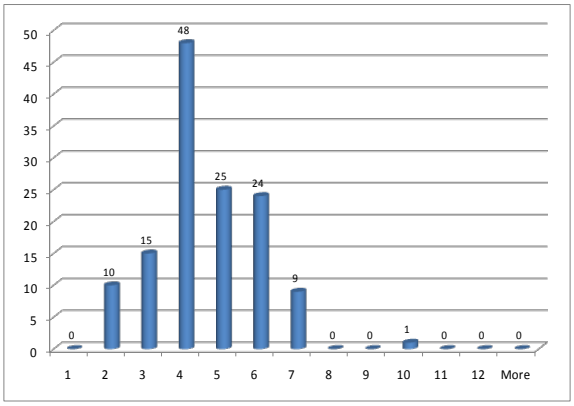


Exhibit E
Larger Special Districts: AFRs Issued by Month after Fiscal Year-End
Fiscal Years 2006–2008



Nineteen percent of the larger special district AFRs were issued in 3 months or fewer, and another 36 percent were issued in 4 months. Only 1 of the 130 special district AFRs was issued more than 7 months after the fiscal year-end.[13] By contrast, the percentage of AFRs issued within 3 months was 1.4 percent for states, 2.5 percent for counties, 2.0 percent for localities, and 0.7 percent for school districts. Fully 10 percent of state AFRs were issued more than 9 months after the fiscal year-end, as were 9 percent of school district AFRs, more than 5 percent of locality AFRs, and almost 4 percent of county AFRs. Almost 5 percent of school district AFRs were issued more than a year after the fiscal year ended.

The time-to-issuance for smaller governments generally was longer than for larger governments. (See Table 5.) Overall, smaller governments included in the study averaged 200 days-to-issuance, compared with 171 days for larger governments (not including states). Substantial differences extended to three of the four types of governments, though by very different proportions. Smaller counties took 72 days (42 percent) longer to issue their AFRs on average than larger counties. Smaller special districts took an additional 54 days (43 percent longer) to issue their AFRs on average compared with larger special districts. Smaller localities issued their AFRs 5 days later on average (3 percent) than their larger counterparts.

Table 5
Average Days-to-Issuance
Fiscal Years 2006, 2007, and 2008 Combined
Larger Versus Smaller Governments

	Larger Governments	Smaller Governments
Counties	172.17	243.89
Localities	181.70	187.06
Independent School Districts	188.40	142.02
Special Districts	126.39	180.67
Total	170.61	199.56

By contrast, smaller independent school districts in the study issued their AFRs 46 days *earlier* than the larger districts, or 25 percent faster. There is no obvious explanation for this contrasting finding.

The findings for the smaller governments should be generalized with great care due to the notable number of AFRs not collected for the sample. It is possible that governments for which AFRs are not readily obtainable may tend to take longer to issue their AFRs, which would increase the overall days-to-issuance.

Table 6
Descriptive Statistics: Days-to-Issuance
Fiscal Years 2006, 2007, and 2008 Combined
Smaller Governments

	Mean	Median	Maximum	Minimum
Counties	243.89	215	966	36
Localities	187.06	170	647	46
Independent School Districts	142.02	124	364	42
Special Districts	180.67	151	546	46
Total	199.56	172	966	36

There was considerable variation among the smaller governments. One county issued an AFR 966 days after fiscal

[13] Anecdotally, many concerns about timeliness expressed to the GASB center on special districts. The finding that special districts had the shortest time-to-issuance may relate to the fact that these are the largest special districts in the U.S.

year-end—nearly two years and eight months. (See Table 6.) At the other end of the spectrum, another county issued an AFR in little more than a month and a local government and special district each issued in just 46 days.

Time-to-issuance was distributed more broadly for smaller governments than for larger governments. Whereas 77 percent of larger government AFRs were issued within 6 months, 56 percent of small governments met that benchmark. (See Table 7.) Interestingly, though, almost 11 percent of the smaller government AFRs were issued within 3 months, compared with 4 percent for larger government AFRs. Over 7 percent of smaller government AFRs were issued after more than a year had elapsed, compared with 2 percent for larger government AFRs.

The overall days-to-issuance for smaller governments was weighed down by the counties, which issued 43 percent of their AFRs within 6 months and almost 31 percent in 10 months or later. (See Exhibit F.) By contrast, 77 percent of the ISD AFRs were issued within 6 months, as were 60 percent of the special district and local government AFRs. (See Exhibits G, H, and I.) Relative to counties, the other smaller governments appear to be more skewed toward shorter time-to-issuance, particularly the school districts. Twenty-three percent of the smaller school district AFRs were issued in less than 3 months and another 27 percent in 4 months.

Table 7

Days-to-Issuance Frequency Analysis
Fiscal Years 2006, 2007, and 2008 Combined
Smaller Governments

	Time-to-Issuance (Months)					
	0–3	4–6	7–9	10–12	12+	Total
Number of AFRs						
Counties	12	44	35	22	18	131
Localities	10	68	36	10	6	130
Independent School Districts	12	28	10	2	0	52
Special Districts	7	31	15	6	4	63
All Governments	41	171	96	40	28	376
Percentage of Total AFRs						
Counties	9.2%	33.6%	26.7%	16.8%	13.7%	100.0%
Localities	7.7%	52.3%	27.7%	7.7%	4.6%	100.0%
Independent School Districts	23.1%	53.8%	19.2%	3.8%	0.0%	100.0%
Special Districts	11.1%	49.2%	23.8%	9.5%	6.3%	100.0%
All Governments	10.9%	45.5%	25.5%	10.6%	7.4%	100.0%

Exhibit F
Smaller Counties: AFRs Issued by Month after Fiscal Year-End
Fiscal Years 2006–2008

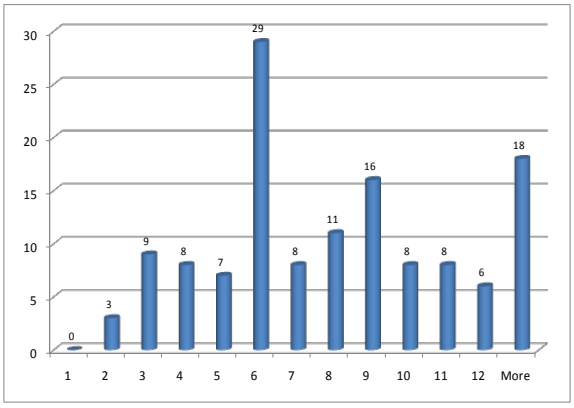


Exhibit H
Smaller ISDs: AFRs Issued by Month after Fiscal Year-End
Fiscal Years 2006–2008

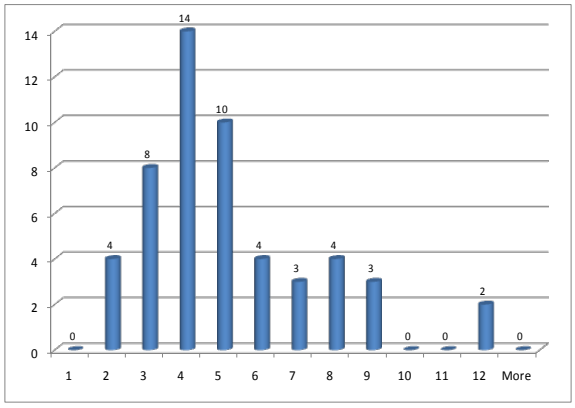


Exhibit G
Smaller Localities: AFRs Issued by Month after Fiscal Year-End
Fiscal Years 2006–2008

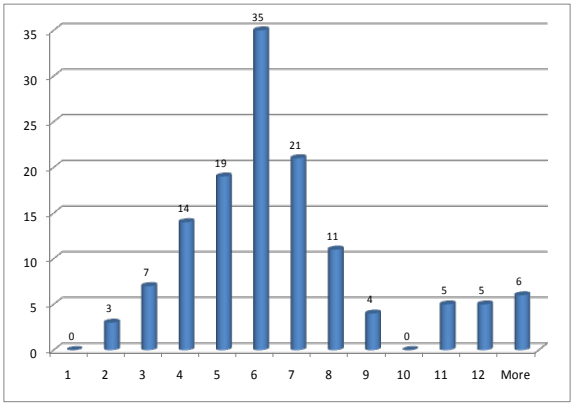
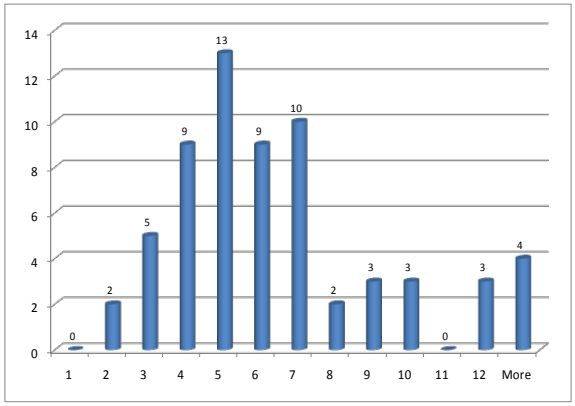


Exhibit I
Smaller Special Districts: AFRs Issued by Month after Fiscal Year-End
Fiscal Years 2006–2008



Change in Time-to-Issuance

Time-to-issuance was not consistent through the three fiscal years studied. Time-to-issuance increased by 7.3 days for larger governments from 2006 to 2007 and then declined an average of 4.9 days from 2007 to 2008, an overall increase of 2.4 days on average for the 3-year period. (See Table 8.)

The average time-to-issuance for counties increased by an average of 9 days. On average, the time-to-issuance appeared

Table 8
Descriptive Statistics: Change in Days-to-Issuance
Fiscal Years 2006–2008
Larger Governments

	Mean	Median	Maximum	Minimum
States	2	0	138	-169
Counties	9	2	341	-108
Localities	-4	3	134	-462
Independent School Districts	3	3	247	-248
Special Districts	5	3	87	-122
All Governments	2	2	341	-462

to change very little for states, localities, and school districts between fiscal years 2006 and 2008. However, the length of time it took to issue AFRs increased for the majority of the governments in this study. At the extremes, a county issued its 2008 AFR 341 days later than it issued its 2006 AFR—more than 11 months. One school district issued its 2008 AFR 247 days later than it issued its 2006 AFR. On the other hand, a locality sped up the issuance of its 2008 AFR by more than 15 months compared with 2006, and a school district improved its time-to-issuance by 8 months.

Table 9

Change in Days-to-Issuance Frequency Analysis
Fiscal Years 2006–2008
Larger Governments

	Time-to-Issuance (Months)								
	-90	-60	-30	0	+30	+60	+90	> +90	Total
Number of AFRs									
States	2	2	1	20	19	1	1	3	49
Counties	1	2	8	30	41	9	3	3	97
Localities	7	3	4	26	39	12	4	5	100
Independent School Districts	2	2	4	14	17	5	1	3	48
Special Districts	1	0	2	17	18	4	2	0	44
All Governments	13	9	19	107	134	31	11	14	338
Percentage of Total AFRs									
States	4.1%	4.1%	2.0%	40.8%	38.8%	2.0%	2.0%	6.1%	100.0%
Counties	1.0%	2.1%	8.2%	30.9%	42.3%	9.3%	3.1%	3.1%	100.0%
Localities	7.0%	3.0%	4.0%	26.0%	39.0%	12.0%	4.0%	5.0%	100.0%
Independent School Districts	4.2%	4.2%	8.3%	29.2%	35.4%	10.4%	2.1%	6.3%	100.0%
Special Districts	2.3%	0.0%	4.5%	38.6%	40.9%	9.1%	4.5%	0.0%	100.0%
All Governments	3.8%	2.7%	5.6%	31.7%	39.6%	9.2%	3.3%	4.1%	100.0%

Almost half of the states (24) took longer to issue their fiscal year 2008 AFR than their fiscal year 2006 AFR, and 5 took more than a month longer. (See Table 9.) Fifty-six of the 97 counties (58 percent) for which an AFR was obtained for both fiscal years 2006 and 2008 took longer to issue in 2008, 15 took more than a month longer, and 3 took more than 3 months longer. Sixty of the localities overall took longer to issue in 2008, 21 took more than a month longer, and 5 took more than 3 months longer. Twenty-six of the 48 school districts (54 percent) for which an AFR was obtained for both fiscal years 2006 and 2008 took longer to issue in 2008, 9 took more than a month longer, and 3 took more than 3 months longer. Lastly, 24 of the 44 special districts (55 percent) for which an AFR was obtained for both fiscal years 2006 and 2008 took longer to issue in 2008, and 6 took more than a month longer.

Table 10

Descriptive Statistics: Change in Days-to-Issuance
Fiscal Years 2006 to 2008
Smaller Governments

	Mean	Median	Maximum	Minimum
Counties	34	22	418	-731
Localities	12	15	223	-384
Independent School Districts	32	26	172	-228
Special Districts	41	24	281	-202
All Governments	27	18	418	-731

The change in time-to-issuance for the smaller governments in the study was more pronounced. From fiscal year 2006 to 2008, average days-to-issuance increased nearly 4 weeks, and half of the smaller governments had an increase of more than 18 days. (See Table 10.)

Change in days-to-issuance for smaller counties was considerably skewed toward large increases. (See Table 11.) Eleven counties (28 percent of the 40 for

Table 11
Change in Days-to-Issuance Frequency Analysis
Fiscal Years 2006–2008
Smaller Governments

	Time-to-Issuance (Months)								
	-90	-60	-30	0	+30	+60	+90	> +90	Total
Number of AFRs									
Counties	2	2	1	7	10	2	5	11	40
Localities	3	2	2	10	10	8	1	5	41
Independent School Districts	1	0	1	2	4	0	4	3	15
Special Districts	1	0	0	5	6	4	1	4	21
All Governments	7	4	4	24	30	14	11	23	117
Percentage of Total AFRs									
Counties	5.0%	5.0%	2.5%	17.5%	25.0%	5.0%	12.5%	27.5%	100.0%
Localities	7.3%	4.9%	4.9%	24.4%	24.4%	19.5%	2.4%	12.2%	100.0%
Independent School Districts	6.7%	0.0%	6.7%	13.3%	26.7%	0.0%	26.7%	20.0%	100.0%
Special Districts	4.8%	0.0%	0.0%	23.8%	28.6%	19.0%	4.8%	19.0%	100.0%
All Governments	6.0%	3.4%	3.4%	20.5%	25.6%	12.0%	9.4%	19.7%	100.0%

which an AFR was obtained for both fiscal years 2006 and 2008) issued their AFRs more than 3 months later in 2008 than in 2006. Seventy percent of smaller counties issued their AFRs later in 2008 overall. Twenty-four of the smaller localities for which an AFR was obtained for both fiscal years 2006 and 2008 (59 percent) issued their AFRs later in 2008, 5 of them (12 percent) more than 3 months later. Eleven of the 15 ISDs for which AFRs were available for both 2006 and 2008 issued their AFRs later in 2008 and 7 were more than 2 months later. Nine of the 21 smaller special districts for which both 2006 and 2008 AFRs were obtained issued later in 2008. Four issued their AFRs more than three months later.

Change in Usefulness with the Passage of Time

The overall results of the survey of users of governmental financial information show an obvious and expected trend—the passage of time diminishes the usefulness of financial information. (See Table 12.) What may be unexpected is the rapidity with which usefulness diminishes for some users. Whereas 88 percent of respondents considered information received within 45 days of fiscal year-end to be "very useful," the proportion was halved to 43 percent for information received within 3 months. Less than 9 percent of respondents considered information received within 6 months to be very useful, and under 2 percent responded that information received

Table 12
Usefulness of Information at Various Points after the Fiscal Year-End
All Respondents

Number of Responses

	Very Useful 5	4	3	2	Not Useful At All 1	Don't Know/ No Answer	Total	Average
Within 45 days	170	12	5	3	1	3	194	4.82
Within 3 months	84	87	18	3	0	2	194	4.31
Within 6 months	17	55	85	29	6	2	194	3.25
Within 12 months	3	12	48	86	44	1	194	2.19
12 months or later	3	1	25	62	100	3	194	1.66

Percentage Distribution

	Very Useful 5	4	3	2	Not Useful At All 1	Don't Know/ No Answer	Total
Within 45 days	87.6%	6.2%	2.6%	1.5%	0.5%	1.5%	100.0%
Within 3 months	43.3%	44.8%	9.3%	1.5%	0.0%	1.0%	100.0%
Within 6 months	8.8%	28.4%	43.8%	14.9%	3.1%	1.0%	100.0%
Within 12 months	1.5%	6.2%	24.7%	44.3%	22.7%	0.5%	100.0%
12 months or later	1.5%	0.5%	12.9%	32.0%	51.5%	1.5%	100.0%

within 12 months or longer than 12 months was very useful.

Table 13

Usefulness of Information at Various Points after the Fiscal Year-End
Bond Analyst Respondents

Number of Responses

	Very Useful 5	4	3	2	Not Useful At All 1	Don't Know/ No Answer	Total	Average
Within 45 days	142	9	4	1	1	3	160	4.85
Within 3 months	70	71	15	2	0	2	160	4.32
Within 6 months	14	40	72	29	4	1	160	3.19
Within 12 months	2	8	34	75	40	1	160	2.10
12 months or later	2	1	16	48	91	2	160	1.58

Percentage Distribution

	Very Useful 5	4	3	2	Not Useful At All 1	Don't Know/ No Answer	Total
Within 45 days	88.8%	5.6%	2.5%	0.6%	0.6%	1.9%	100.0%
Within 3 months	43.8%	44.4%	9.4%	1.3%	0.0%	1.3%	100.0%
Within 6 months	8.8%	25.0%	45.0%	18.1%	2.5%	0.6%	100.0%
Within 12 months	1.3%	5.0%	21.3%	46.9%	25.0%	0.6%	100.0%
12 months or later	1.3%	0.6%	10.0%	30.0%	56.9%	1.3%	100.0%

The results are very consistent among the three types of users surveyed—bond analysts, citizen/taxpayer groups, and legislative/oversight staff. (See Tables 13, 14, and 15.) Almost 89 percent of analyst respondents ranked information received within 45 days as very useful, dropping under 44 percent for information within 3 months. Nearly 94 percent of citizen/taxpayer respondents considered information received within 45 days to be very useful, and exactly half felt the same about information received within 3 months. A relatively smaller, but still substantial majority—72 percent—of legislative/oversight respondents identified information received within 45 days as very useful, and 17 percent identified information received within 6 months as very useful—a much larger percentage than for bond analyst or citizen/taxpayer respondents. Nevertheless, the pace of decline in usefulness was similar, more than halving from 45 days to 3 months and roughly halving again to 6 months—72 percent, 33 percent, and 17 percent, respectively.

Beyond considering just the period of time when information remains very useful, the survey results suggest that information retains its usefulness longer than would be expected based on the preceding discussion. If one considers the midpoint of the Likert scale, three, to be the cutoff point for usefulness of information, then an examination of the average scores for each period after fiscal year-end shows that information remains useful up to six months after the end of the fiscal year. (Refer Table 12.) Overall, the average usefulness score for information received within 45 days of fiscal year-end was 4.82.

Table 14

Usefulness of Information at Various Points after the Fiscal Year-End
Citizen/Taxpayer Respondents

Number of Responses

	Very Useful 5	4	3	2	Not Useful At All 1	Don't Know/ No Answer	Total	Average
Within 45 days	15	1	0	0	0	0	16	4.94
Within 3 months	8	5	2	1	0	0	16	4.25
Within 6 months	0	8	5	0	2	1	16	3.06
Within 12 months	1	2	6	4	3	0	16	2.63
12 months or later	1	0	4	6	4	1	16	2.06

Percentage Distribution

	Very Useful 5	4	3	2	Not Useful At All 1	Don't Know/ No Answer	Total
Within 45 days	93.8%	6.3%	0.0%	0.0%	0.0%	0.0%	100.0%
Within 3 months	50.0%	31.3%	12.5%	6.3%	0.0%	0.0%	100.0%
Within 6 months	0.0%	50.0%	31.3%	0.0%	12.5%	6.3%	100.0%
Within 12 months	6.3%	12.5%	37.5%	25.0%	18.8%	0.0%	100.0%
12 months or later	6.3%	0.0%	25.0%	37.5%	25.0%	6.3%	100.0%

Individually, each user type scored information received within 45 days closer to very useful than to a notch below. Information received within three months also exceeded an average score of 4 for each user type. Information received within six months averaged scores closer to 3, except for legislative/oversight users, who ranked it 3.72 on average.

Table 15

Usefulness of Information at Various Points after the Fiscal Year-End
Legislative/Oversight Respondents

Number of Responses

	Very Useful 5	4	3	2	Not Useful At All 1	Don't Know/ No Answer	Total	Average
Within 45 days	13	3	1	1	0	0	18	4.56
Within 3 months	6	11	1	0	0	0	18	4.28
Within 6 months	3	7	8	0	0	0	18	3.72
Within 12 months	0	2	8	7	1	0	18	2.61
12 months or later	0	0	5	8	5	0	18	2.00

Percentage Distribution

	Very Useful 5	4	3	2	Not Useful At All 1	Don't Know/ No Answer	Total
Within 45 days	72.2%	16.7%	5.6%	5.6%	0.0%	0.0%	100.0%
Within 3 months	33.3%	61.1%	5.6%	0.0%	0.0%	0.0%	100.0%
Within 6 months	16.7%	38.9%	44.4%	0.0%	0.0%	0.0%	100.0%
Within 12 months	0.0%	11.1%	44.4%	38.9%	5.6%	0.0%	100.0%
12 months or later	0.0%	0.0%	27.8%	44.4%	27.8%	0.0%	100.0%

Conclusions and Next Steps

The results of this research point to a noticeable gap between when financial information is most useful to the users of AFRs and when governments provide that information. Five of the 1,367 AFRs included in this research (1 percent) were issued within 45 days, the period when information is overwhelmingly considered most useful by the respondents to the survey. (See Table 16.) Another 40 AFRs of larger governments (4 percent) and 37 AFRs of smaller governments (10 percent) were issued within 3 months, a period during which information also is considered highly useful, though not as useful as information received within 45 days.

Table 16

Comparison of Usefulness Scores with Time-to-Issuance
Fiscal Years 2006–2008

	Average Usefulness Score	AFRs Issued			
		Larger Governments		Smaller Governments	
		Number	Percentage	Number	Percentage
45 days or less	4.82	1	0.1%	4	1.1%
46 days to 3 months	4.31	40	4.0%	37	9.8%
Over 3 months to 6 months	3.25	726	73.3%	171	45.5%
Over 6 months to 12 months	2.19	205	20.7%	136	36.2%
Over 12 months	1.66	19	1.9%	28	7.4%

Most AFRs in fiscal years 2006–2008—73 percent of larger-government AFRs and 45 percent of smaller-government AFRs—were issued during the period between 3 and 6 months after the fiscal year. Information received within 6 months was still considered useful by respondents to the survey (average score of 3.25), but markedly less so than for information received within 45 days (4.82) or 3 months (4.31).

The implication is that the usefulness of information in 23 percent of larger government AFRs and 44 percent of smaller government AFRs was seriously diminished due to the lateness of the reports.

Directions for Future GASB Research

Given that the GASB does not establish benchmarks or standards for when GAAP-based financial reports should be issued, what value will these findings have for standards setting? The intended result of setting accounting and financial reporting standards is the communication of decision-useful information to the public. As can be seen in this study's findings, the passage of time rapidly and adversely affects decision-usefulness from the perspective of users of financial reports. This continues to be a key consideration for the GASB as it seeks to balance the benefits of information to its users with the cost of providing that information. If the decision-usefulness of an AFR hinges on it being provided promptly, then the cost of providing certain information may outweigh the benefits of that information. The increased cost of providing a single type of information more quickly is not merely the marginal cost related to that information, but the marginal cost of issuing *the entire financial report* earlier.

This study is the first part of the GASB's present research effort to better understand the dynamics of financial report preparation and the determinants of time-to-issuance. Subsequent research may include the following:

- Studying the steps involved in financial report preparation and the time required for each
- Analyzing the marginal costs of shortening the time required for individual steps in the preparation process
- Assessing financial report user views on trade-offs between the availability of certain information and the overall timeliness of the financial report
- Examining the impact on financial reporting timeliness of timing provisions in the state financial reporting laws and regulations reviewed in the GASB's research on GAAP conformity.[14]

With such research to consider, the GASB will be better equipped to evaluate the balance between the benefits of potential standards and their impact on the cost of preparing and using financial reports.

Correspondence

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[14] *State and Local Government Use of Generally Accepted Accounting Principles for General Purpose External Financial Reporting* (Norwalk, CT: GASB, 2008).

Appendix: Survey Instrument

Survey on the Timeliness of State and Local Government Annual Audited Financial Reports

Timeliness is one of the six qualitative characteristics in GASB's conceptual framework that financial information should meet in order to be useful to financial report users. Timely information can be defined as being received soon enough after the events that the information reports on to affect a person's decisions or conclusions. The purpose of this survey is to understand how the usefulness of information is affected by the passage of time.

The following questions ask you to rate how useful audited financial report information—received at various points after a government's fiscal year end—is or would be to the work you do, the decisions you make, or the analyses you perform, ranging from "1" (not useful at all) to "5" (very useful).

1. How useful is or would information be if published ***within 45 days*** after the end of the fiscal year?

1	2	3	4	5	DK
Not useful at all				Very useful	Don't know

2. How useful is or would information be if published ***within 3 months*** after the end of the fiscal year?

1	2	3	4	5	DK
Not useful at all				Very useful	Don't know

3. How useful is or would information be if published ***within 6 months*** after the end of the fiscal year?

1	2	3	4	5	DK
Not useful at all				Very useful	Don't know

4. How useful is or would information be if published ***within 12 months*** after the end of the fiscal year?

1	2	3	4	5	DK
Not useful at all				Very useful	Don't know

5. How useful is or would information be if published ***12 months or later*** after the end of the fiscal year?

1	2	3	4	5	DK
Not useful at all				Very useful	Don't know