Dave Yost • Auditor of State

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Auditor of State Bulletin

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TO: **All Auditor of State (AOS) Financial Audit and Local Government Services Staff**
All Public Offices and Other Entities Required to File Annual Financial Reports with the AOS
All Independent Public Accountants (IPAs)

FROM: **Dave Yost, Ohio Auditor of State**

SUBJECT: **Required Annual Financial Report Filing by Public Offices and Other Entities Required to File**

Overview

The purpose of this Bulletin is to provide comprehensive guidance related to required annual financial report filings by public offices and other entities required to file and includes changes to Auditor of State (AOS) policy regarding:

- The new mandatory method for filing via the AOS' Hinkle Annual Financial Data Reporting System (Hinkle System – formerly known as AFDRS),
- The change to require non-generally accepted accounting principles (non-GAAP) basis financial statements to include notes to the financial statements as part of the annual financial report filing, and
- The change in AOS policy to require the financial statements filed via the Hinkle System to be audited beginning with periods ending in 2016.

The Bulletin also reiterates and/or updates previous guidance related to:

- The statutory annual financial report filing requirements, including the public offices and other entities required to file, and the amendment to Ohio Administrative Code (OAC) §117-2-03(B) requiring government insurance pools to file GAAP financial statements,
- The required components of financial statements for different bases of accounting,
- The filing due date extension requests,
- The impact of non-compliant filings, including possible "unauditable" declarations when entities fail to submit in accordance with the requirements.

This Bulletin supersedes guidance from previously issued Bulletins 2008-001, 2006-02, 2001-012 and 97-015.

Hinkle Annual Financial Data Reporting System (Hinkle System)

Beginning with 2015 financial report filings, all entities required to file with the AOS **must** file electronically via the Hinkle Annual Financial Data Reporting System (Hinkle System) unless a waiver (described below) has been approved by the AOS for the applicable filing year.

The Hinkle System is an internet-based application that allows certain financial statement, debt and demographic data to be entered and/or uploaded and transmitted to the AOS to satisfy the filing requirements of the Ohio Revised Code (ORC) and the OAC. The Hinkle System increases uniformity in financial reporting, generates the statutory reports to the governor and general assembly required pursuant to ORC §117.38, and provides users of this information improved access and functionality.

The Hinkle System was introduced for the 2013 financial report filing for cities and counties, and the 2014 financial report filing for school districts, including joint vocational school districts, educational service centers, community schools, townships, libraries and villages.

Statutory Filing Requirements

Ohio law (ORC §117.38) requires that local public offices file their annual financial reports with the AOS. Further, OAC §117-2-03(B) requires all counties, cities, school districts, including educational service centers and community schools, and government insurance pools prepare their financial reports pursuant to GAAP. OAC §117-2-03(B) was amended in 2015 to require government insurance pools to prepare their annual financial reports pursuant to GAAP. This new GAAP filing requirement is effective for annual financial report filings for periods ending December 31, 2016 and after. Community improvement corporations (CIC), including economic development corporations and county land reutilization corporations, development corporations, and state universities and colleges are also required to file with the AOS and prepare financial reports pursuant to GAAP per ORC §1724.05, ORC §1726.11, ORC §3345.72 and OAC §126:3-1-01(A)(2)(a), respectively.

Entities subject to ORC §117.38 filing on a GAAP basis have 150 days following the end of their fiscal year to submit their financial statements to the AOS. CICs and development corporations have 120 days following the end of their fiscal year to submit their financial statements to the AOS. Universities and colleges must file their financial statements no later than October thirty-first (31st) of each year. All other entities, and GAAP-mandated entities under OAC §117-2-03(B) choosing to not file on a GAAP basis, have 60 days following fiscal year-end to complete their submission in accordance with ORC §117.38. When due dates fall on a weekend, on a legal holiday or when the AOS is closed to the public, the submission will be due the next business day. An entity failing to comply with the mandated basis of accounting, if applicable, and/or the filing requirements may be subject to non-compliance citations and penalties established by the ORC.

Public Offices and Other Entities Required to File

Each public office, other than a state agency, shall file a financial report for each fiscal year. According to ORC §117.01(D), “public office” means any state agency, public institution, political subdivision, or other organized body, office, agency, institution, or entity established by the laws of the State of Ohio for the exercise of any function of government. "Public office" does not include the

nonprofit corporation formed under §187.01 of the ORC. Other entities, although not public offices, are required to file with the AOS under specific ORC sections.

Public offices and other entities currently required to file with the AOS include the following:

Entity Type	Establishing Code Section
Agricultural Societies (County and Independent)	ORC 1711
Airport Authorities	ORC 308
Alcohol, Drug Addiction and Mental Health Boards (Multiple County)	ORC 340.01
Cemeteries (Joint Township, Union and Union Cemetery Districts)	ORC 517, 759
Cities	ORC 707
Colleges and Universities	ORC 3345.72 and OAC §126:3-1-01(A)(2)(a)
Community Based, Multi-County and Juvenile Correctional Facilities	ORC 2301.51, 307.93, 2151
Community Improvement Corporations (including Economic Development Corporations and County Land Reutilization Corporations) and Development Corporations	ORC 1724, 1726
Community Schools	ORC 3314
Conservancy Districts	ORC 6101
Consolidated Departments of Job and Family Services	ORC 329.40
Convention Facilities Authorities	ORC 351
Counties	ORC 301
County School Financing Districts	ORC 3311.50
Emergency Management Agencies Multi-County Local Emergency Planning Committees (LEPC)	ORC 5502.~~26~~ .27 ORC 3750.03(F)
Entities created as Regional Councils of Governments	ORC 167
Family and Children First Councils	ORC 121.37
Fire, EMS and Ambulance Districts	ORC 307, 505
Government Insurance Pools	ORC 9.833, 2744.08 and 3345.203 (eff 3/15/17)
Health Districts	ORC 3709
Joint Children's Homes	ORC 5153.36

Entity Type	Establishing Code Section
Joint Economic Development Districts (JEDDs) Joint Economic Development Zones (JEDZs)	ORC 715.69-.90
Joint Police Districts	ORC 505.482
Joint Public Defender Commissions	ORC 120.23
Lake Facilities Authority	ORC 353.02
Libraries / Association Libraries eligible for Public Library Funds (PLF)	ORC 3375 /ORC 1713.28
Memorial Buildings (Board of Trustees)	ORC 345
Metropolitan Housing Authorities	ORC 3735
Multi-County Board of Developmental Disabilities	ORC 5126.02
Multi-County Local Healthier Buckeye Councils	ORC 355.02
New Community Organizations	ORC 349
Park Districts	ORC 511.18/1545
Port/Finance Authorities	ORC 4582
Public Hospitals	ORC 140.01, 339, 513, 749
Recreation Districts	ORC 755
Regional Arts and Cultural Districts	ORC 3381
Regional Library Systems	ORC 3375.90
Regional Planning Commissions	ORC 713.21
Regional Student Education Districts	ORC 3313
Regional Transportation Improvement Project	ORC 5595
Regional Water and Sewer Districts	ORC 6119
Retirement Systems /Public Employees Deferred Comp Program	ORC 145, 742, 3307, 3309 and 5505 / ORC 148.02
Sanitary Districts	ORC 6115

Entity Type	Establishing Code Section
School Districts (Local, City, Exempted Village, Vocational & Educational Service Centers)	ORC 3311
Science, Technology, Engineering and Mathematics (STEM) Schools	ORC 3326
Soil and Water Conservation Districts Joint Board of County Commissioners Improvement Project	ORC 1515 (transfer to ORC 940 effective 1/1/16) ORC Chapters 6131 /6133
Solid Waste Management Districts Joint and Regional	ORC 343
Special Improvement Districts	ORC 1710
Townships	ORC 503

Entity Type	Establishing Code Section
Transit Authorities/Commissions (Regional and Single County)	ORC 306
Transportation Improvement Districts	ORC 5540
University Branch Districts	ORC 3355
Villages	ORC 707
Watershed Districts	ORC 6105
Workforce Investment Area Agencies (~~Single and~~ Multiple County) and Workforce Innovation and Opportunity Act Agencies(WIOA)	ORC 6301

- Fiscal officers representing more than one public office or other entity required to file are responsible for filing separate reports for each office.
- Any entity with a filing requirement must file a separate financial report. Inclusion in the financial statements of another reporting entity does **not** satisfy the filing requirement.

Required Components of Financial Statements

The required components of the financial statements will vary by entity type and basis of accounting. The highest level of reporting is the GAAP basis, and, as indicated earlier, is the mandated basis of accounting for several entity types. Many local governments maintain their internal accounting records and prepare their annual financial statements using a Special Purpose Framework *other comprehensive basis of accounting* (OCBOA) as defined in U.S. Auditing Standards AU-C 800. The three common OCBOA bases of accounting for governments in Ohio are: 1) OCBOA Cash basis; 2) OCBOA Modified Cash basis; and 3) Regulatory Cash basis. OCBOA Cash basis and OCBOA Modified Cash basis financial statements are presented using the same *structure* as GAAP financial statements; and, therefore, are also referred to as "GAAP look-alike," since GASB 34 established the current GAAP presentation structure. The third OCBOA basis, Regulatory Cash basis, is a cash basis of accounting used to comply with financial reporting provisions of a governmental regulatory agency, in this case the AOS. AOS' authority for establishing the Regulatory Cash basis is in accordance with the financial reporting provisions ORC §117.38 and OAC §117-2-03(D), and is commonly referred to as the "AOS basis."

The following outline includes the minimum required components of financial statement reports:

- **Governmental Entities (including governmental nonprofit entities) filing GAAP, OCBOA Cash or OCBOA Modified Cash basis**:
  - Management's Discussion & Analysis (required for GAAP; optional for OCBOA Cash or OCBOA Modified Cash)
  - Basic Financial Statements
    - Government-Wide Financial Statements
    - Fund Financial Statements
    - Notes to the Basic Financial Statements
  - Any other Required Supplementary Information (RSI) (GAAP only)
- **Nongovernmental Nonprofit Entities filing GAAP, OCBOA Cash or OCBOA Modified Cash basis:**
  - Basic Financial Statements
    - Statement of Financial Position
    - Statement of Activities (also known as Statement of Changes in Net Assets)
    - Statement of Functional Expenses (required for voluntary health and welfare organizations; optional for all other nonprofit organizations)
    - Statement of Cash Flows (GAAP only)
    - Notes to the Financial Statements
  - Any other RSI (GAAP only)
- **Regulatory Cash Basis Entities (a cash basis commonly referred to as "AOS basis"):**
  - Basic Financial Statements
    - Statement(s) (or Combined Statement(s)) of Receipts, Disbursements and Changes in Fund Balances – Governmental, Proprietary and Fiduciary, as applicable
    - Notes to the Basic Financial Statements

Notes to the Financial Statements - In the AOS' effort to provide assistance to our clients, we will continue to be available to assist entities in the preparation of notes to the financial statements. *GASB Codification 2300* explains the notes to the financial statements are intended to communicate information that is necessary for a fair presentation of the financial statements that is not readily apparent from, or cannot be included in, the financial statements themselves. The notes to the financial statements are an integral part of the financial statements, intended to be read with the financial statements, and are the entity's responsibility to prepare.

In previous AOS bulletins, entities preparing financial statements on a non-GAAP basis were permitted to exclude notes to the financial statements as part of the annual financial report filing and engage the AOS to assist with preparation of the notes during the audit. However, this has caused confusion, and it is important to note the preparation of the notes is the responsibility of the entity and should be completed in conjunction with preparing the financial statements. Therefore, the notes to the financial statements, and all other components listed above, are required to be included in the financial statements filed with the AOS via the Hinkle System as described below.

The AOS provides shells of financial statements and note disclosures for entities permitted to report on an OCBOA basis on our website at:

https://ohioauditor.gov/references/shells.html.

Documentation/Information Required for Hinkle System/Required Annual Financial Report Submission

The data required to be submitted as part of the annual financial report submission differs depending on the type of entity:

All entities - required to prepare a file of the entity's **final, unaudited** financial statements as described in the *Required Components of Financial Statements* section above. In order to upload the file into the Hinkle System, all components of the financial statements must be in one Adobe Acrobat PDF file of less than 30MB.

In addition to the PDF file of the full financial statement package, the following entity types are also required to key certain financial, debt and demographic data into the Hinkle System:

- Cities
- Counties
- School Districts, including Joint Vocational School Districts
- Educational Service Centers
- Community Schools
- Townships
- Libraries
- Villages

The specific data to be entered by each entity type is described in the Frequently Asked Questions (FAQs) and is reflected in the Quick Guide for each entity type available on the AOS website at:

http://www.ohioauditor.gov/financialreporting/default.html.

Accessing Hinkle System/ Submission of Annual Financial Report

With the exception of Uniform Accounting Network (UAN) clients (described below), the Hinkle System is only accessible via an **entity-specific** link provided by email to each entity's fiscal officer/designated contact after the end of the entity's annual fiscal year. It is; therefore, important for each entity to ensure any change in fiscal officer contact information, including an email address, is communicated to the AOS. ~~If your entity has registered for eServices, please login at: https://eServices.ohioauditor.gov and request the change. Otherwise, an entity should notify the AOS of the change via the email address established for the Hinkle System correspondence (HinkleSystem@ohioauditor.gov).~~ Guidance for notifying the AOS is available at: AOS Notifications.

- ***UAN Clients*** – for most UAN clients, the entity's required filing in the Hinkle System will be completed as part of the year-end UAN reporting. For UAN clients reporting on GAAP or another accounting basis which cannot be prepared by UAN, instructions will be provided by UAN regarding how to file via the Hinkle System.

- ***Electronic Filing Waiver for Small Governments*** – a waiver from required electronic filing in the Hinkle System may be requested for limited circumstances. If a non-UAN, small government entity is unable to file electronically, an Electronic Filing Waiver Request for Small Governments form, available on our website or by contacting the AOS, should be

completed and submitted for consideration. The entity will receive a response letter from the AOS indicating whether or not the waiver has been approved generally within ten (10) working days of the AOS receiving the request. Submission of a waiver request does not extend the due date for filing the entity's financial report. If approved, a waiver is only granted for one financial reporting year. A new request must be submitted for each annual financial reporting period. If the waiver is approved, the entity must submit: 1) a copy of the waiver approval with, if required, the requested demographic information completed; and 2) the final, unaudited financial statements, as described in the *Required Components of Financial Statements* section above, to the AOS, in order for the AOS to complete the Hinkle System filing on the entity's behalf.

Note: Submission of an entity's annual financial report by any method other than as described above will not satisfy the requirements of OAC §117-2-03(A)(1).

Publication - ORC §117.38 requires at the time the annual financial report is filed with the AOS, the chief financial officer shall publish notice in a newspaper of general circulation in the political subdivision or taxing district that states the financial report has been completed by the public office and is available for inspection at the office of the chief financial officer. Therefore, the ORC does not provide for filing "draft" financial statements with the AOS. Each entity has the ability to save and modify data in the Hinkle System up to the point of submission; however, submission to the AOS should not occur until the **final, unaudited** financial statements are prepared and ready for inspection. Once submitted via the Hinkle System, the data cannot be modified without contacting the AOS.

Filing Extensions

Normally, entities should ensure sufficient time has been planned and any necessary assistance has been engaged to prepare their annual financial statements in order to meet the statutory filing due dates; however, the AOS recognizes that occasionally circumstances may arise that justify granting an extension of the annual financial report filing deadline as permitted by ORC §117.38. Generally, the AOS will consider granting an extension to a public office, or other entity required to file, under extraordinary circumstances as defined below:

- The public office or other entity required to file is located in an area where a major flood or natural disaster has recently occurred;
- The records were destroyed through fire or casualty;
- The records are not updated due to the recent death or disability of the person responsible for preparing the annual financial report;
- A newly elected or appointed public official requests an extension due to poor maintenance of financial records by the predecessor official; or
- Other extenuating circumstances as determined by the AOS.

The **initial** year an entity is required to file via the Hinkle System is also an acceptable reason for requesting an extension. However, since the Hinkle System will be fully implemented for all entities with the 2015 annual financial reporting filings, extension requests for this reason will not be granted for reporting years 2016 and beyond.

Extension Requests must:

- State the reason(s) for the request;
- Indicate the requested filing extension date (up to a maximum of two (2) months beyond the statutory due date);
- Be signed by the chief fiscal officer and a representative of the governing board of the public office or other entity required to file; and
- Be in a PDF format and submitted to the AOS via the entity specific Hinkle System link[1] **no later than** the statutory due date for filing the entity's annual financial report. Extension requests cannot be submitted after the statutory/extended due date or by any other method.

The entity will receive a response email generally within ten (10) working days of the AOS receiving the request indicating whether the filing extension request has been granted. Additionally, once an entity selects the basis of accounting for reporting in the Hinkle System, the filing due date will appear in the upper right corner of each of the Hinkle System screens. Any extension granted will be reflected next to the due date with a Pending, Approved or Denied designation.

Non-Compliant Filing/Failure to File

ORC §117.38 imposes a penalty of $25 per day ($750 maximum) for entities that file late or fail to file. Failure to file includes entities which fail to file under a mandated basis of accounting as discussed in the *Statutory Filing Requirement* section of this bulletin. The AOS may waive all or any part of the penalty assessed under this section once the entity has filed the report via the Hinkle System. To be considered a ***complete*** annual financial report filing and avoid any penalties and/or non-compliance citations, the financial statements submitted via the Hinkle System **must include all components, including the notes to the financial statements,** as summarized in the *Required Components of Financial Statements* section of this bulletin.

During an entity's financial audit, procedures outlined in the *Ohio Compliance Supplement* will be performed to determine whether the entity's annual financial report filing(s) for the period under audit was complete, timely, and prepared utilizing the mandatory basis of accounting, if applicable. Auditors will inspect the Hinkle System filing to determine whether amounts reported agree with the entity's underlying accounting records and include all the required components. Material non-compliance will be cited in the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* when an entity mandated to prepare its financial statements on a GAAP basis reports on a non-GAAP basis and/or may be cited if the financial statements filed were significantly incomplete/misstated. Entities failing to file by the statutory due date, including any granted extensions, may be cited for the late filing in the management letter.[2]

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[1] For guidance, please refer to the Hinkle System Extension Request Quick Guide.

[2] Refer to the *Ohio Compliance Supplement* for further guidance.

Failing to file an annual financial report may be an indication the public office's records have not been maintained sufficiently to audit; and, therefore, may lead to the AOS determining the public office is "unauditable" (i.e. unable to be audited) in accordance with ORC §117.41.

When the AOS determines a public office's records are not sufficient to allow the audit to be performed, a letter is sent to the public office that formally declares the entity to be unauditable. If the public office fails to make reasonable efforts and continuing progress to bring its records into an auditable condition within 90 days after the unauditable declaration, the AOS shall request the Attorney General's Office commence legal action pursuant to Ohio Rev. Code §117.42 to compel the public office to bring its accounts, records, files, or reports into an auditable condition.

Per ORC §1724.06 and §1726.12, respectively, if a CIC (including economic development corporations and county land reutilization corporations) or development corporation fails to prepare and file its annual financial report with the AOS within 90 days of the time prescribed for filing (i.e. 210 days following the end of the fiscal year) or the AOS declares the CIC or development corporation unauditable, and the CIC or development corporation fails to then prepare and file its annual report within 90 days of the declaration, the AOS shall certify that fact to the Secretary of State's Office. The Secretary of State then shall cancel the articles of the CIC or development corporation, and all rights, privileges, and franchises conferred upon that CIC or development corporation will cease.

Auditing of Financial Statements Filed

In order to provide timely, relevant and accurate financial information and meet the objective of completing timely audits , it is critical that each entity file its annual financial report via the Hinkle System by the statutory or extended due date.

Although the ORC and OAC requirements discussed in this bulletin were clearly established to ensure public offices and other required entities prepare their annual financial reports completely, utilizing the mandated accounting basis, and by a date sufficient to allow for the timely completion of the financial audit, many entities have filed financial statements that were draft, incomplete, or on a basis other than which they intended to have audited. An annual financial report filing that only meets the statutory filing deadline, without regard for the accuracy and completeness of the financial statements, defeats the objective to complete the entity's financial audit in a timely manner. Rather, the entity's filing of their annual financial report should signal the final, unaudited financial statements have been prepared, are ready for public inspection, and are available for audit.

With this in mind, **beginning with audits of financial periods ending in 2016**, the AOS (and any independent public accounting (IPA) firms contracted to perform audits for the AOS) will audit the financial statements uploaded and submitted to the AOS via the Hinkle System. At the commencement of the audit, the AOS or IPA will verify with the entity that the financial statements submitted via the Hinkle System are the final, unaudited financial statements for the audit period. If the entity indicates the financial statements filed via the Hinkle System for the audit period require modification, the entity must contact the AOS via the Hinkle System Inquiry Form in order to re-file. The filing date and accounting basis of the re-filed annual financial report will then become the basis for determining compliance with the filing requirements discussed in this Bulletin.

As indicated earlier, to ensure compliance with the annual financial report filing requirements, entities should plan sufficient time and engage any necessary assistance to prepare their annual financial statements in order to meet the statutory filing due dates. Entities requiring assistance with any aspect of the preparation of their annual financial statements may wish to contact the AOS' Local Government Services.

Questions regarding this bulletin or regarding annual financial report filing requirements may be directed to the Hinkle System Inquiry Form.

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