



# State of Arizona Accounting Manual

Topic 30 Liabilities  
Section 20 Reporting Requirements for New Financial Obligations Exceeding One Million Dollars

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## INTRODUCTION

In an effort to increase the transparency afforded to investors in government bonds, the Securities and Exchange Commission (SEC) has issued a new reporting requirement, codified in SEC Rule 15c2-12 (hereinafter, the Rule), which obliges bond issuers, such as the State of Arizona, to report material changes to their indebtedness arising from entering into material contractual financial obligations and/or other significant fiscal occurrences on a timely basis (i.e., within 10 days).

The purpose of this policy statement is to support the State's compliance with the continuing disclosure requirements of the Rule.

Continuing disclosure consists of important information about municipal bonds and obligations that arises after the initial issuance. This information generally reflects the financial health of the issuer as it changes over time, or the occurrence of specific events that can have a material impact on the payment of bonds or obligations.

While in general parlance the term "municipal" is principally used to refer to matters pertaining to a city or town, when dealing with marketable securities, bonds and other debt obligations the term is broadened to encompass counties and states.

For the purposes of this section of SAAM, the term "financial obligation" refers to debt obligations, leases, guarantees, derivatives and hedges. Specifically excluded from this policy are financing instruments (such as revenue bonds, and certificates of participation (COPs)) as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with Rule 15c2-12.

As stated in SAAM 9505, the *Glossary*, the term "agency" means any department, authority, board, commission, council, administration, court, registrar, office, institution, or other entity in the Executive, Legislative, or Judicial Branch of Arizona Government. This included the three State universities.

Failure to comply with the Rule can result in severe penalties being levied against the issuer and those individuals responsible for acting on the issuer's behalf in matters governed by the SEC.

## POLICY & PROCEDURES

1. Any agency of Arizona Government that issues publicly traded securities must comply with the requirements of SEC Rule 15c2-12 for the continuing disclosure of

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material financial obligations or other events having an impact on key elements of bonds or other debts.

- 1.1. Each agency must determine the appropriate disclosures related to its obligations. The materiality amount related to an agency's specific obligations can be different from the materiality amount determined by the General Accounting Office (GAO) for the State.
- 1.2. Except as otherwise determined by an agency, material financial obligations are those whose total liability, over the period governed by the underlying agreement, equals or exceeds one million dollars (\$1,000,000) in principal, interest and/or lease payments.
2. SEC Rule 15c2-12 requires continuing disclosure notification within ten (10) business days, whenever an issuer enters into a material financial obligation or upon the occurrence of another event that can have an impact on key features of the bonds or obligations.
3. Other events that might indicate a change of the issuer's financial condition that require reporting to the SEC under Rule 15c2-12 include, but might not be limited to any material:
  - 3.1. Default, delinquency or acceleration with respect to a debt obligation.
  - 3.2. Modification to a debt obligation that has the effect of changing priority rights.
  - 3.3. Release, substitution, or sale of property securing repayment of the issuer's securities.
  - 3.4. Occurrence that might indicate or give rise to an issuer's inability to discharge its obligations in a timely manner.
  - 3.5. For a more detailed listing, please refer to the continuing disclosure requirements specified in the legal documents for the financing, or the website of the Municipal Securities Rulemaking Board (MSRB):

<http://www.msrb.org/EducationCenter/Issuers/Disclosing.aspx>

4. Material financial obligations include, but might not be limited to:
  - 4.1. Leases.
  - 4.2. Debts or similar obligations, whether secured or unsecured.
  - 4.3. Guarantees.

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- 4.4. Derivatives entered into in connection with, or pledged as security, guarantee, or a source of payment for, an existing or planned debt obligation.
  5. In order to comply with the requirements of SEC Rule 15c2-12, State agencies must report any new material financial obligations to the General Accounting Office (GAO) no later than one (1) business day following the execution of the relevant agreement.
  6. Within two (2) business days of being notified of the execution of a relevant agreement, the GAO will communicate the information received to other State agencies known to issue municipal securities subject to the continuing disclosure requirements of SEC Rule 15c2-12.
    - 6.1. At the time of the issuance of this policy, this includes the Arizona Department of Transportation (ADOT), the School Facilities Board (SFB), the Water Infrastructure Finance Authority (WIFA), and the three State universities (Arizona State University, Northern Arizona University, and University of Arizona).
    - 6.2. Any other State agency that issues municipal securities must communicate this fact to the GAO so that the agency can be added to the distribution list.
  7. This applies only to new debt obligations entered into on or after February 27, 2019.
  8. In the event an issuer is unsure as to whether reporting to the SEC under Rule 15c2-12 is required, the better course of action is to report. You may contact the GAO to discuss any questions.
  9. Please direct financial obligations being reported under this policy to the attention of the State Comptroller.