Statutory Basis vs. GAAP Financial Statements

Question: If a USD has been using GAAP in the preparation of their financial statements and reports is there any reason why they cannot change and use the statutory basis for the current year?

Answer: The audit statute, K.S.A. 75-1117 *et seq.*, requires GAAP statements unless the governing body, by resolution, makes a finding that financial statements prepared in accordance with GAAP are not relevant to the requirements of the cash-basis and budget laws of this state and are of no significant value to the governing body or members of the general public.

So as long as a resolution is passed we see no reason to prevent a change by the governing body to statutory basis financial statements. However, please note that if there is a bond ordinance, contractual, or other legal requirement that the financial statements be prepared in accordance with GAAP, this statute will not supersede those requirements.

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Question: Our Commissioners are considering a switch from GAAP financial statements. Any thoughts on our doing this? Thanks

Answer: Good morning. The Municipal Audit Law is found in K.S.A. 75-1117 *et seq.*, and is the area of guidance on this issue. As a general rule, financial statements and reports are to conform to Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) (see K.S.A. 75-1120a). However, K.S.A. 75-1120a(c)(1) allows governing bodies to request a <u>waiver</u> from this provision by <u>annual resolution</u> that basically states that the financial statements and reports prepared according to GAAP are not relevant to the requirement of the cash-basis and budget laws of this state and are of no significant value to the governing body or general public of the municipality.

The statute would allow the commissioners to change from GAAP to statutory basis financial statements that show compliance with the cash-basis and budget laws of Kansas. As stated previous, this would have to be done annually, by resolution (we have sample language on our Municipal Services website). The statute also reads that the request is to be filed with the Director of Accounts and Reports. We no longer require the resolution be filed with us since the Director of Accounts and Reports has no discretion to deny the waiver; it is just automatically approved. So, the resolution is passed and this, along with the minute book, will be reviewed by the auditor to ensure the governing body has complied with the provisions for waiver.

The only other area that we need to make you aware of is if there are bond ordinances or resolution or other legal or contractual requirements that mandate the financial statements be prepared in accordance with GAAP; the statute discussed above <u>will not</u> supersede those requirements; and the financial statements and report will need to be prepared on the GAAP basis.

We hope this information is helpful. We realize that governing bodies are very conscious and concerned of the costs associated with a GAAP audit, and weigh those costs against the benefits derived from such an audit.

If you have additional questions and comments, please do not hesitate to contact us.

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Question: I had a question concerning the GAAP Waiver. I know it has to be passed by resolution every year, but is there a specific time to have it adopted by?

<u>Answer</u>: Good morning. The GAAP waiver is governed by K.S.A. 75-1120a, and basically states that waiver should be granted when requested by the governing body; and that the governing body, prior to making the request for the waiver, shall pass a resolution. The statute is silent on when the resolution needs to occur. Although we would prefer the resolution take place in the fiscal year to which the waiver pertains, waivers have been allowed when the resolution has been passed in the following fiscal year, prior to the completion of the audit.

Hope this information helps.

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<u>Question</u>: If a USD has been using GAAP in the preparation of their financial statements and reports is there any reason why they cannot change and use the statutory basis for the current year?

Answer: Good morning. The audit law, K.S.A. 75-1117 *et seq.*, requires GAAP statements unless the governing body, by resolution, makes a finding that financial statements prepared in accordance with GAAP are not relevant to the requirements of the cash-basis and budget laws of this state and are of no significant value to the governing body or members of the general public.

So as long as a resolution is passed, we see no reason to prevent the governing body to change to the statutory basis. However, please note that if there is a bond ordinance, contractual, or other

legal requirement that the financial statements be prepared in accordance with GAAP, this statute will not supersede those requirements.

Hope this information helps.

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Question: Hi. We're working with a rural water district that reports on a statutory basis. Is there any reason why we can't report using GAAP? Thanks

<u>Answer</u>: Pursuant to KSA 75-1120a(a) the GAAP report is the default report unless waiver of that requirement is made by affirmative action of the governing body. You are OK to prepare a CAFR rather than statutory basis financial statements.

Question: Can you please provide us some guidance on moving away from GAAP financial statements and adopting statutory basis statements?

Answer: Good morning. The Municipal Audit Law is found in K.S.A. 75-1117 *et seq.*, and is the area of guidance on this issue. As a general rule, financial statements and reports are to conform to generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) (see K.S.A. 75-1120a). However, subsection (c)(1) of the same statute allows governing bodies to request a <u>waiver</u> from this provision by <u>annual resolution</u> that basically states that the financial statements and reports prepared according to GAAP are not relevant to the requirement of the cash-basis and budget laws of this state and are of no significant value to the governing body or general public of the municipality.

The statute would allow the board of county commissioners to change from GAAP to statutory basis financial statements that show compliance with the cash-basis and budget laws of Kansas. As stated previously, the waiver resolution would have to be done annually (we have sample language on our Municipal Services website).

The statute also reads that a request for waiver from GAAP is to be filed with the Director of Accounts and Reports. We no longer require the resolution be filed with us since the Director of Accounts and Reports has no discretion to deny the waiver, it is just automatically approved. So, the resolution is passed, and this, along with the minutes book, will be reviewed by the auditor to ensure the governing body has complied with the provisions for waiver.

The only other area of which you should be aware is if there are bond resolutions or other legal or contractual requirements that require the financial statements be prepared in accordance with GAAP, this statute <u>will not</u> supersede those requirements; and the financial statements and report will need to be prepared on the GAAP basis.

We hope this information is helpful.

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