

KANSAS STATUTORY AUDIT REQUIREMENTS FOR MUNICIPALITIES

Introduction

Kansas municipal audits are required to be conducted under K.S.A. 75-1122, K.S.A. 10-1208, and K.S.A. 12-866. K.S.A. 75-1122 may require an *all-funds audit* while K.S.A. 10-1208 and K.S.A. 12-866 may require a *utility fund audit*. An all-funds audit is an audit of all funds of the municipality. A utility fund audit is an audit of one or more utility funds for which revenue bonds are outstanding.

K.S.A. 13-1243, not discussed here, requires an annual audit of operations related to revenue-producing public levees for which revenue bonds have been issued, but is limited to cities having a population of at least 115,000.

Determining if an audit is required under these statutes is a two-step process. First, you must determine if the entity is a “municipality,” as defined by K.S.A. 75-1117. Second, you must determine if the criteria outlined in the statutes requiring an all-funds audit, a utility fund audit, or both, have been met.

What Is A Municipality?

For the purpose of applying the statutory all-funds audit requirements, municipality is defined in K.S.A. 75-1117. The statute provides an extensive list of entities included in the definition of a municipality. Also included is any “public or quasi-public corporation entitled to receive and hold public moneys pursuant to any provision of state law”

Not included in the above-referenced definition of municipality are non-profits, or other types of entities that may receive public moneys from municipalities.

For utility fund audits required by K.S.A. 10-1208, the term “municipality” includes those entities identified in K.S.A. 10-101 (generally, any entity possessing authority to issue general obligation bonds).

What Triggers An All-Funds Audit?

K.S.A. 75-1122 requires an all-funds audit if the municipality meets any one of the following three criteria: 1) aggregate annual gross receipts exceed \$275,000, or, 2) general obligation bonds outstanding in excess of \$275,000, or, 3) revenue bonds outstanding in excess of \$275,000.

Recreation commissions are subject to a lower threshold. Recreation commissions with aggregate annual gross receipts exceeding \$150,000 are subject to an all-funds audit under K.S.A. 75-1122.

What Triggers A Utility Fund Audit?

K.S.A. 10-1208 requires the operation of any a municipal utility to be audited if it has any outstanding revenue bonds (K.S.A. 12-866 imposes the same requirement for city-owned utilities). These audits are commonly called “utility fund” audits. The utility fund audit, in contrast to the all-funds audit required under K.S.A. 75-1122, is an audit of only the utility which is legally obligated to pay the outstanding revenue bonds.

What If Both An All-Funds Audit And A Utility Fund Audit Are Required?

If a municipality meets the requirements for both an all-funds audit and a utility fund audit, an all-funds audit is sufficient to meet both statutory audit requirements because the all-funds audit encompasses all utility funds. There is no need to issue a separate audit report for the utility fund. However, the compliance requirements in K.S.A. 10-1208 and K.S.A. 12-866 must still be considered in an all-funds audit, even though a separate utility fund audit report is not issued.

Exemptions From Audit Requirement

- Statutory exemption if criteria in K.S.A. 75-1122 are not met
- Cities can charter out of audit requirement

What If A City Is Audited But Not Required To Be Audited?

Even though a city might not be required to have an audit by statute, it might still wish to have an audit performed for any number of reasons. If so, the city would contract with an auditor for audit services much like it would contract for other professional services.

If a city has an audit, but is not required by statute to have an audit, the audit report is not required to be filed with the Division of Accounts and Reports.

Application Of Statutory Audit Requirement In Relation To GASB Statement No. 14 - *The Financial Reporting Entity*

There is no question that GASB (Governmental Accounting Standards Board) Statement No. 14 impacts audits of Kansas municipalities. But you must be very careful not to confuse the municipal statutory audit requirement with the reporting entity guidelines promulgated by the GASB.

The statutory audit requirement, K.S.A. 75-1122, applies to municipalities such as cities, counties, extension councils, library boards, and firemen's relief associations, while with GASB

14, typically, two or more “independent” municipalities will make up the *financial reporting entity* as defined by the GASB.

The financial reporting entity is basically a primary government and organizations for which it is financially accountable, such as component units. A common example illustrating the application of GASB 14 is a city with a local public library. The reporting entity, per GASB 14, would consist of the city (the primary government) and public library (a component unit).

Does this mean the public library must therefore be audited as part of the city? No, it does not. The statutory audit requirement is applied not to the *reporting entity*, but to *individual municipalities*. Because the city and the public library are by definition (K.S.A. 75-1117) independent municipalities, the statutory audit requirement is applied to each independently. In most cases, you will find that the city meets the audit requirement, but the library does not. Therefore, by law, only the city must be audited.

The important point here is that GASB 14 does not impose any additional audit requirements beyond what was in effect prior to GASB 14. However, if an auditor audits something less than the complete reporting entity, as will typically be the case, care must be taken in giving an opinion on the financial statements. For example, if a material component unit were not included in a city's financial statements, an unqualified opinion on the city's general purpose financial statements probably would not be possible.