

KMAAG Regulatory Framework: KMAAG 101 Compliance 101 Auditing 101

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When I Started 42 years ago!

- ❑ We did not have a KMAAG or KMAAG?
- ❑ We had what was called the MSAP!
- ❑ Minimum Standard Audit Program
- ❑ Totally auditor driven and we were required to go through this audit program which was almost totally driven by what we now call the Regulatory Compliance Checklist.
- ❑ There was no financial reporting model to follow.
- ❑ Over the years we have went from totally compliance, to KMAAG, to KMAAG and hopefully to a more friendly financial statement model for governments in Kansas.

Our Discussion Today!

- ❑ **KMAAG Big Picture & Reporting Hub**
- ❑ **Changes & Updates to KMAAG**
- ❑ **Key Components of KMAAG and a Kansas Government**
- ❑ **Table of Contents**
- ❑ **Auditor's Report**
- ❑ **Statement #1 and Notes to the Financial Statement**
- ❑ **Schedules 1, 2, 3 & 4**
- ❑ **Compliance under KMAAG**

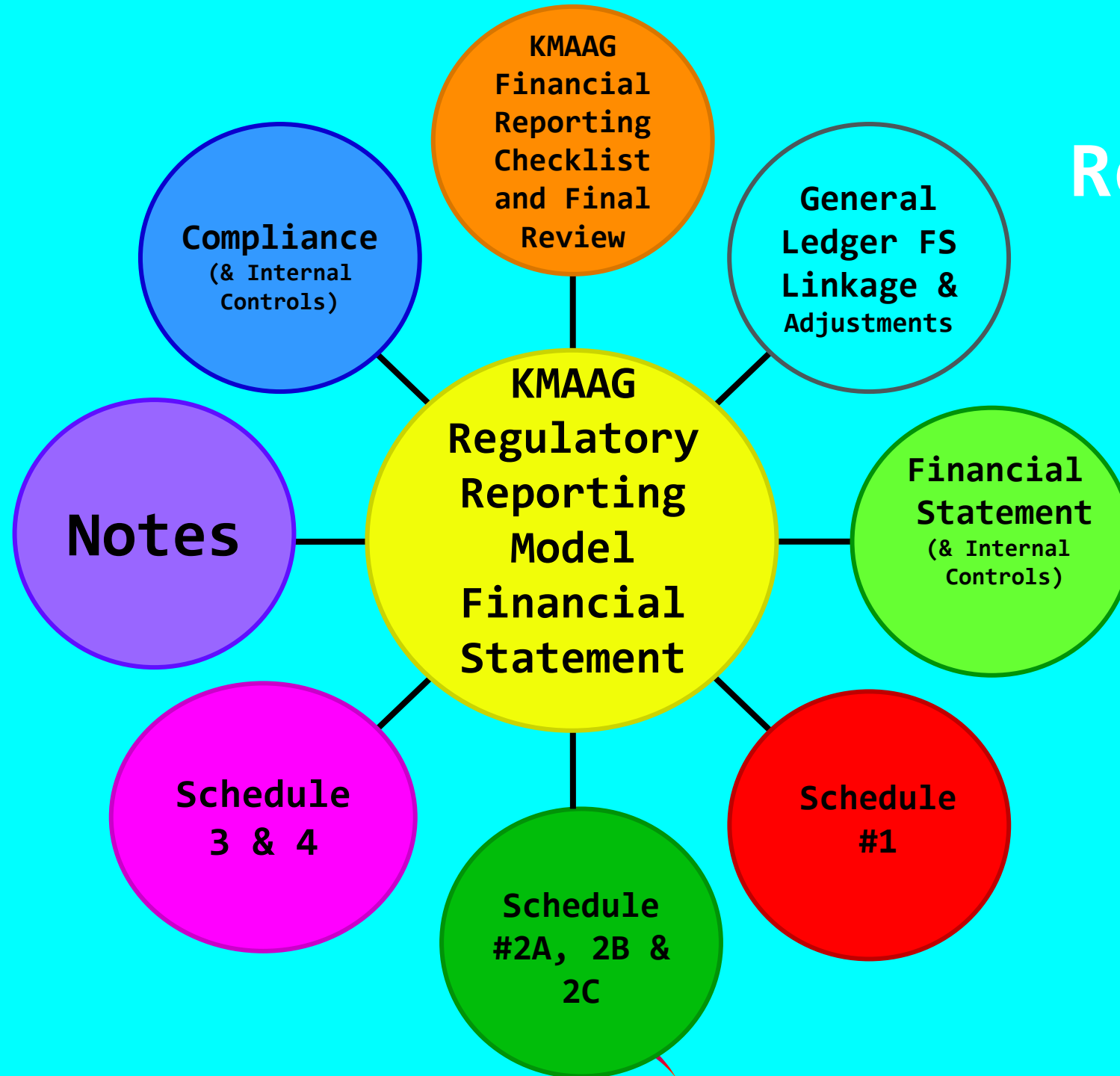
WHERE Do WE Start?





KMAAG Financial Statement BIG Picture & KMAAG Reporting Hub

KMAAG Reporting HUB

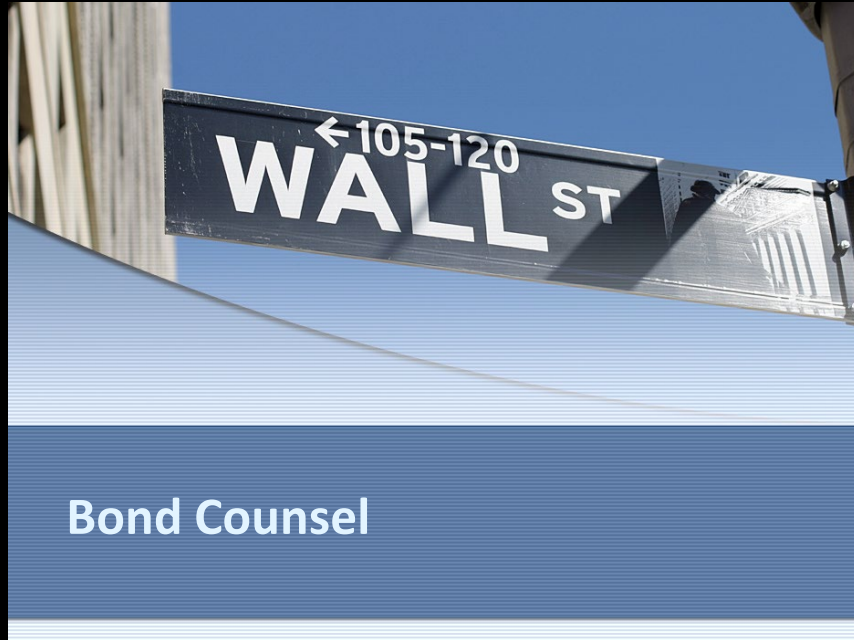


- **K**ansas
- **M**unicipal
- **A**udit &
- **A**ccounting
- **G**uide

**KMAAG
Regulatory
Reporting
Model
Financial
Statement**



Why Does Your Government Have To Prepare External Financial Statements?



KSDE

Commission
CITIZENS
BOARD!

**State of Kansas—Dept. of
Administration & Audit KSAs**



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Financial Statement BIG Picture

- ❑ This guide (as required by K.S.A. 75-1123) has been prepared to assist financial statement preparers and the independent auditor in preparing and auditing the financial statements of Kansas municipal governmental units.
- ❑ The January 2025 revision supersedes all previous guides and is effective for audits of years ending on or after December 31, 2024.
- ❑ Annually, the KMAAG Board of Editors (members of the KSCPA) prepares revisions of the guide for approval by the Director of the Division of Accounts and Reports.



KMAAG

Financial Statement BIG Picture

- ❑ K.S.A. 75-1120a requires that financial statements in municipal audit reports be presented in accordance with *accounting principles generally accepted in the United States of America (GAAP)*.
- ❑ **A resolution waiving the GAAP requirement** may be passed by the municipality, however, under K.S.A. 75-1120a(c), if the GAAP financial presentation requirement is waived, the municipality is required by K.S.A. 75-1120a(c) to present its financial statements "on the basis of cash receipts and disbursements as adjusted to show compliance with the cash basis and budget laws of this state."
- ❑ Thus, there are only two types of financial statement presentations that are acceptable for Kansas municipalities subject to these state laws:
 - 1) GAAP basis financial statements and
 - **2) regulatory basis financial statements.**



SPECIAL PURPOSE FRAMEWORKS

❑ A financial reporting framework other than GAAP, which is one of the following bases of accounting:

- Cash basis
- Tax basis
- **Regulatory basis**
- Other Basis
(SAS 127)

Commonly referred to as
Other Comprehensive
Bases of Accounting
(OCBOA)

- Contractual basis

Basic Terminology

- ❑ **AICPA. American Institute of Certified Public Accountants.**
- ❑ **KSCPA. Kansas Society of Certified Public Accountants.**
- ❑ **ACFR. Annual Comprehensive Financial Report.**
- ❑ **GAAFR. Governmental Accounting, Auditing, and Financial Reporting—Government Finance Officers Association.**
- ❑ **GAAP. Generally Accepted Accounting Principles.**

Basic Terminology

- ❑ **GASB. Governmental Accounting Standard Board.**
- ❑ **GPFS. General Purpose Financial Statements.**
- ❑ **KMAAG. Kansas Municipal Audit & Accounting Guide. An audit guide for use in conducting municipal audits in the State of Kansas. It is mandated by K.S.A. 75-1123. Currently, this document is prescribed by the Director of Accounts and Reports at the Department of Administration—State of Kansas. It is published and distributed by the Kansas Society of Certified Public Accountants.**

Basic Terminology

K.S.A. 75-1122. Requires an annual audit be conducted by a certified public accountant (CPA), or a ~~licensed municipal public accountant (LMPA)~~. The CPA (~~LMPA~~) must be licensed to practice in the State of Kansas. This audit statute has certain criteria that triggers an all funds audit in the State of Kansas.



Which Governments Utilize GAAP?

Here is the full report from our GAAP utilization research efforts:

[Financial Reporting Framework Requirements for State and Local Governments: Evaluating GAAP Choice](#)

Here is the summarized (“made-for-screen”) version that also includes a link to the full report:

[GAAP Utilization Research Summary](#)

Both are under Staff Working Papers on the GASB website.

Pros & Cons of Switching from GAAP to KMAAG

Pros

- ❑ **Lower Costs:** Reduced compliance expenses.
- ❑ **Simplified Reporting:** Easier financial statement preparation.
- ❑ **Kansas-Specific Compliance:** Aligns with state laws and budget requirements.

Cons

- ❑ **Limited Comparability:** Financial statements may not align with national GAAP standards. This is especially true with credit regulators.
- ❑ **Restricted External Funding:** Some grants and investors prefer GAAP-compliant reports.
- ❑ **Potential Transition Challenges:** Adjusting internal processes and training staff

Basic Terminology

- ❑ **Waiver of GAAP.** A waiver of GAAP basis financial statements is necessary only if the municipality decides to present regulatory basis financial statements.
- ❑ This is a common practice among municipalities in the State of Kansas.
- ❑ KMAAG has specific instructions on obtaining a waiver of GAAP from the Division of Accounts and Reports—St of KS.

KMAAG Basic Terminology

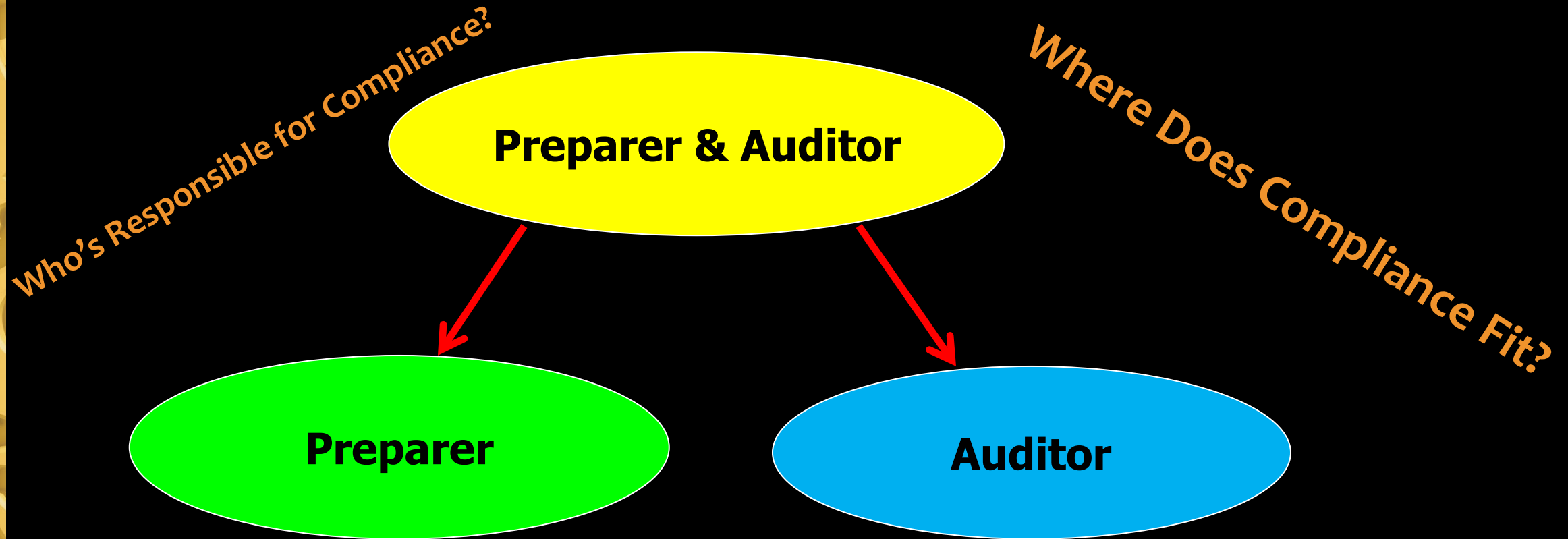
**Please see Page 6 of
KMAAG 2024 to see other
basic definitions found in
KMAAG.**



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What is YOUR Conclusion?

In Some Cases This May Be Needed to Be
Independent in Fact and Appearance?



Assessing Management's Skill, Knowledge, or Experience

❑ Factors to document include management's:

- Understanding of the nature of the nonattest/nonaudit service—drafting the KMAAG Financial Statement
- Knowledge of the audited entity's mission and operations
- General business knowledge
- Education
- Position at the audited entity

❑ Some factors may be given more weight than others

❑ GAGAS does not require that management have the ability to perform or reperform the service

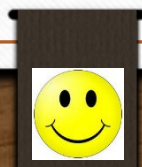


KMAAG Changes

2025

KMAAG Changes 2025

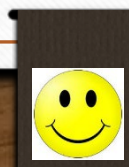
- ☐ The definition of an encumbrance was added to the KMAAG regulatory basis definitions on page 6.
- ☐ The budgetary information example not disclosure in Appendix D was updated to clarify the timeline for when a revenue neutral rate hearing is required.





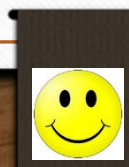
KMAAG Changes 2025

- ☐ The deposits and investments note disclosure in Appendix D was updated to reflect the investment value at cost rather than fair value.
- ☐ An alert about certain risk disclosures as described in GASB Statement No. 102, effective for June 30, 2025 and December 31, 2025 year-ends, was added to Appendix G.



KMAAG Changes 2025

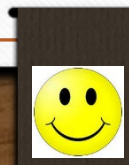
- ❑ **GASB Statement No. 102 Alerts of risks to possibly think about disclosing if you have those unique circumstances—See Appendix G:**
 - **State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due.**
 - **Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required.**
 - **The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.**



KMAAG Changes 2025

☐ GASB Statement No. 102 Alerts of risks to possibly think about disclosing if you have those unique circumstances (continued)—See Appendix G:

- If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:**
 - ✓ The concentration or constraint**
 - ✓ Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements**
 - ✓ Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.**






KMAAG Table of Contents





KMAAG Audit Report





**Financial
Statement**
(& Internal
Controls)

KMAAG Statement 1 & Schedule 1 & 2's



**HOW
MUCH
CASH IS
ENOUGH?**





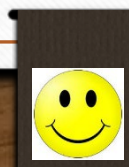
Unencumbered Cash
3 to 6 months General Fund and
Other Operating Fund Expenditures

General and Other Operating Funds—
one month?

3 months?

6 months?

12-31-2024?



Importance of Statement 1, Schedule 1 and 2's

- Now its time to take the BIG PICTURE view of your entity... Statement 1 and Schedule 1 are the backbone of your finances...
- Statement 1 reflects ending unencumbered cash balances and the reconciliation with your bank/investments.
- Schedule 1 is your budgeted funds compliance with State budget laws.
- Schedule 2 actually reflect both Statement 1 and Schedule 1 in a more detailed format.
- The FINANCIAL FOUNDATION of your government entity rests on this Statement & Schedule!



KMAAG Overview

□ Appendix B has been added that summarizes the significant differences between GAAP basis and KMAAG regulatory basis for specific elements of the financial statement.



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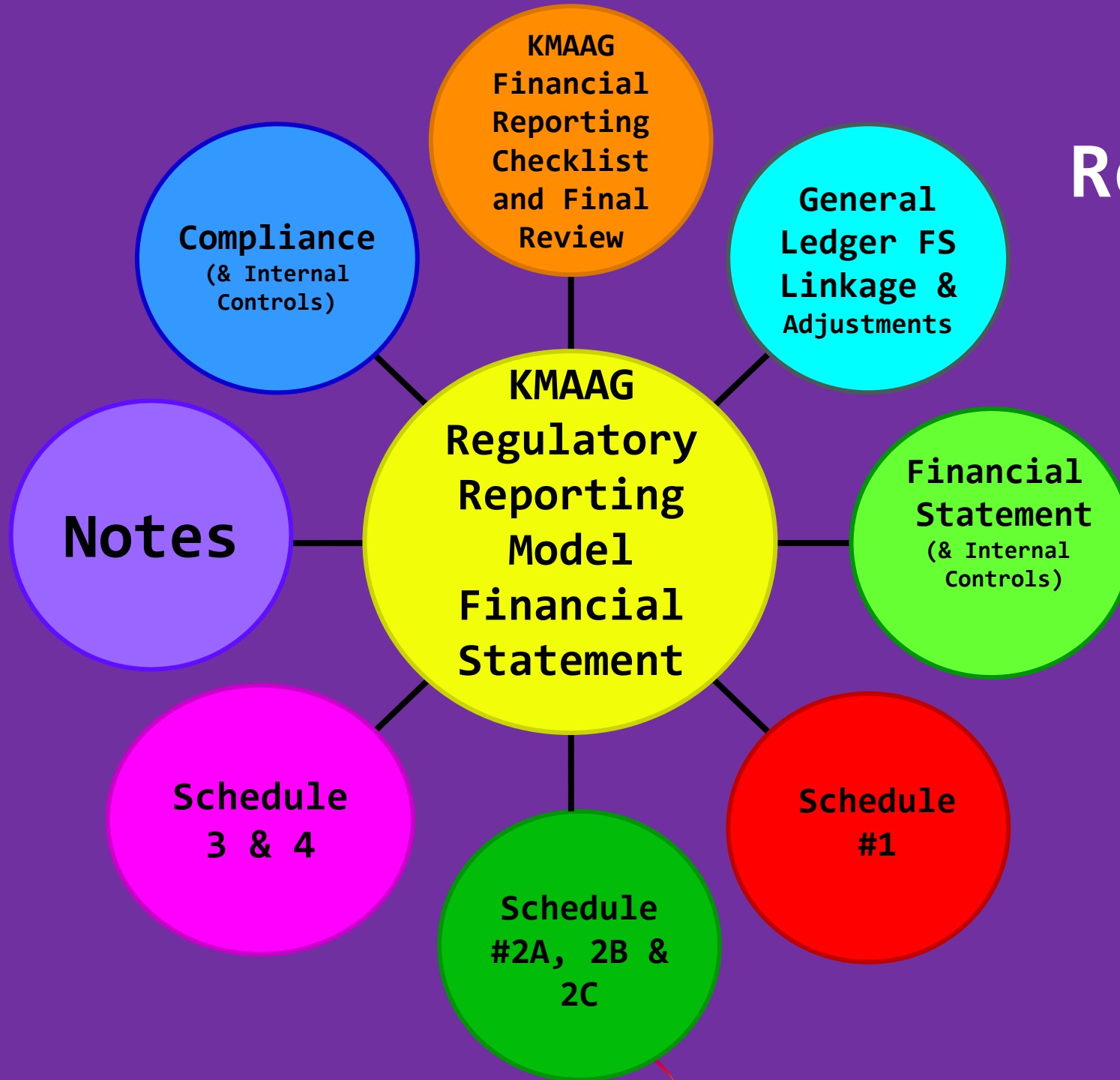
Notes

KMAAG Notes to the Financial Statement



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KMAAG Reporting HUB



GOVERNMENT NOTES

- Does KMAAG require this note?
- What financial information do you need to gather?
- Where do you find the financial information?
- Does the financial information tie to the financial statement, Schedules or any other place in the KMAAG model?

KMAAG
Disclosures...
#1 Municipal
Financial
Reporting
Entity

Municipal Financial Reporting Entity Defined

- ❑ This disclosure normally is made under the general category, *Summary of Significant Accounting Policies*.
- ❑ At a minimum, this note should discuss what the financial reporting entity consists of.
- ❑ The note should disclose all related municipal entities (RME) that are included in the KMAAG financial statement.
- ❑ Any part of the municipality (PM) that is excluded from the municipality as described above in the definitions for a PM, needs to be referenced here for the readers of the KMAAG financial statement and how they can obtain the PM audited financial statement.

KMAAG OVERVIEW

KMAAG Regulatory Basis definitions:

- **Municipal Financial Reporting Entity** – the municipality as defined in K.S.A. 75-117 and any included related municipal entities.
- **Related Municipal Entity** – legally separate municipal organization which was established to benefit the municipality or its constituents.



KMAAG OVERVIEW

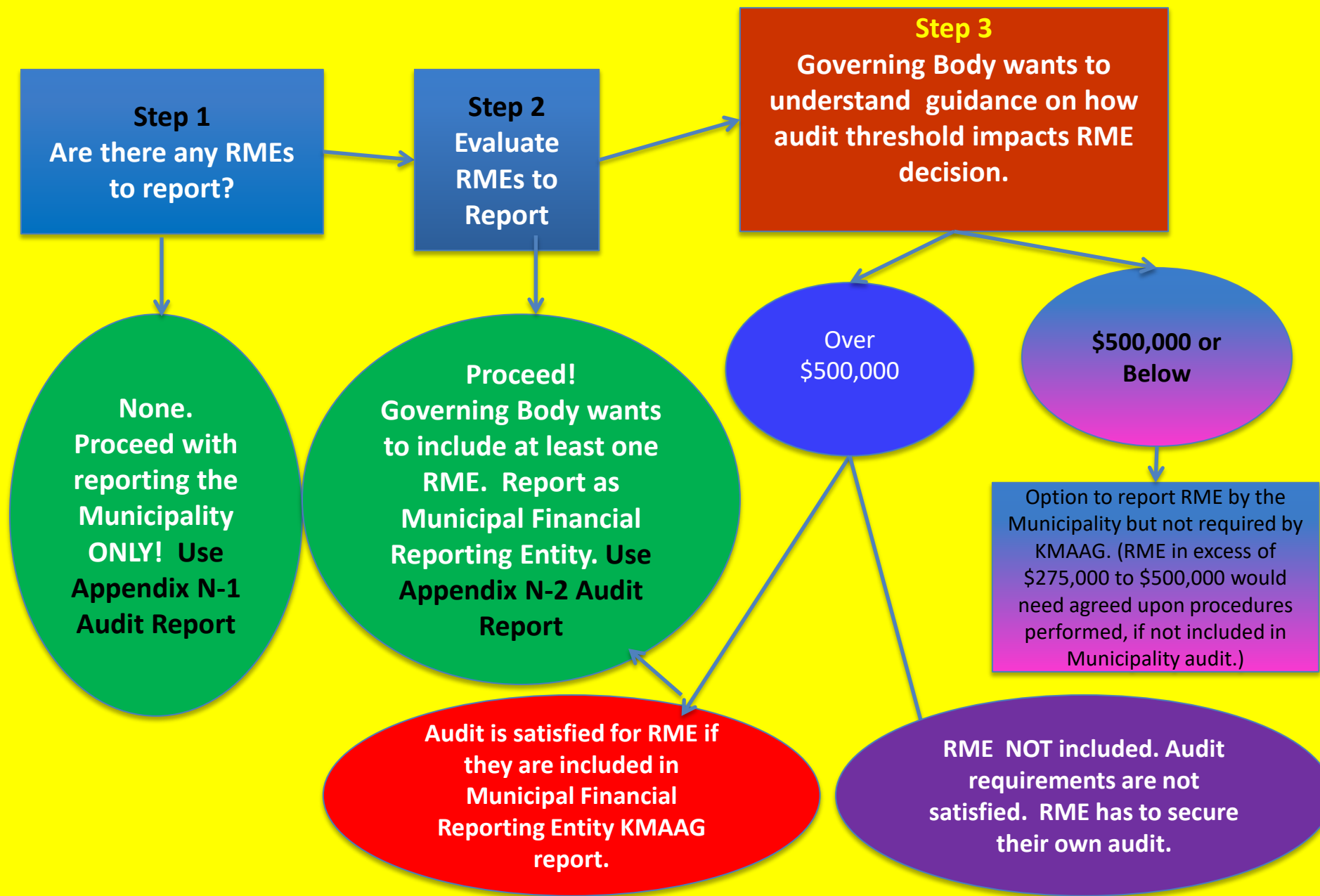
APPENDIX O

To assist the preparer in the determination of identifying municipalities and related municipal entities KMAAG has classified a large number of entities as:

- 1) a municipality (M),
- 2) part of the municipality (PM),
- 3) or a related municipal entity (RME).

These classifications apply to all municipalities listed in K.S.A. 75-117.

Evaluate Related Municipal Entity (RME)



Evaluate Part of a Municipality (PM)



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Disclosures...

#2 Regulatory Basis Fund Types

Regulatory Basis Fund Types Defined

- ❑ This disclosure is made under the *Summary of Significant Accounting Policies* category.
- ❑ The note should disclose the regulatory basis fund types used by the municipality.
- ❑ See the different fund types on the following pages.

KMAAG REGULATORY BASIS FUND DEFINITIONS

- **General fund** - the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.
- **Special Purpose fund** - used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.



KMAAG REGULATORY BASIS FUND DEFINITIONS

- **Bond and Interest fund** - used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.
- **Capital Project fund** - used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.



KMAAG REGULATORY BASIS FUND DEFINITIONS

- **Business fund** - funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service funds such as water fund, electric fund, etc.).
- **Trust fund** - funds used to report assets held in trust for the benefit of the municipal financial reporting entity (i.e. pension funds, investment trust funds, private purpose trust funds which benefit the municipal reporting entity, scholarship funds, etc.)



KMAAG REGULATORY BASIS FUND DEFINITIONS

- **Agency fund** - funds used to report assets held by the municipal reporting entity in a purely custodial (payroll clearing fund, Government treasurer tax collection accounts, etc.)



KMAAG Disclosures... #3 Basis of Presentation and Basis of Accounting

Basis of Presentation & Basis of Accounting Defined

- ❑ This disclosure normally is made under the general category, *Summary of Significant Accounting Policies*.
- ❑ This note should discuss fund accounting in general and give a definition of each type of fund that is included in the regulatory basis financial statement.
- ❑ The basis of accounting used for the regulatory basis financial statement presentation should also be discussed.

KMAAG
Disclosures...
#4 In-Substance
Receipt in
Transit (School
Districts Only)

InSubstance Receipt in Transit (USDs only) Defined

- ❑ This disclosure should be a standalone note and quantify the amount of the in-substance receipt in transit (applicable only to school districts).
- ❑ As of June 30, 2023 this has changed. The State is now making sure the money is received before year-end.

KMAAG Disclosures... #5 Budgetary Information

Budgetary Information Defined

- ❑ This disclosure is made under the *Summary of Significant Accounting Policies* category.
- ❑ It should briefly review the budgetary process and disclose which funds, if any, are not required to adopt a legal annual budget.
- ❑ Also, the note should explain the budgetary basis of accounting (which is the same as regulatory basis of accounting), as well as the legal level of budgetary control.



KMAAG
Disclosures...
#6 Compliance
with Finance-
Related Legal and
Contractual
Provisions

Compliance with Finance-Related Legal and Contractual Provisions Defined

- ❑ This disclosure normally is made under the general category, *Stewardship, Compliance, and Accountability*.
- ❑ All "material" violations of finance-related legal and contractual provisions should be disclosed in the notes.
- ❑ Finance-related legal and contractual provisions include Kansas statutes, regulations, contracts, debt covenants, or other agreements.
 - A single item of non-compliance, by itself, might not be considered a "material" violation.
 - However, numerous violations in any one year, or similar violations that persist year after year, might warrant disclosure in the notes. Particularly important is compliance with revenue bond covenants and related Kansas statutes which are designed, at least in part, to protect bondholders.

KMAAG
Disclosures...
#7 Deficit/
Unencumbered
Cash for Individual
Funds

Deficit/Unencumbered Cash for Individual Funds Defined

- ❑ This disclosure normally is made under the general category, *Stewardship, Compliance, and Accountability*.
- ❑ A deficit indicates a possible problem or potential problem in the future.
- ❑ Even if this is not the case (i.e., there is no major problem), the fact that a deficit is an indicator of a problem means that an explanation in the notes is warranted.






KMAAG: Compliance

Kansas Regulatory Compliance Checklists

- ☐ A1 for all Municipalities
- ☐ A2 for a County
- ☐ A3 for a City
- ☐ A4 for a USD, Vocational Educational School
- ☐ A5 for a Community College





Cash Basis Law Compliance

Kansas Cash Basis Law

K.S.A. 10-1101 to 10-1122

Compliance

- In general, the Kansas cash basis law makes it unlawful for a governing body to pay or agree to pay an indebtedness in excess of the amount of funds on hand at such time, “for such purpose.” (K.S.A. 10-1112.)



Budget Law Compliance

Kansas Budget Law

K.S.A. 79-2925 – 79-2937

Compliance

- **K.S.A. 79-2935** – Generally, it is unlawful for the governing body to spend or agree to spend a total amount in excess of a fund's budget authority.
- **K.S.A. 79-2936** – Removal from office for violation.

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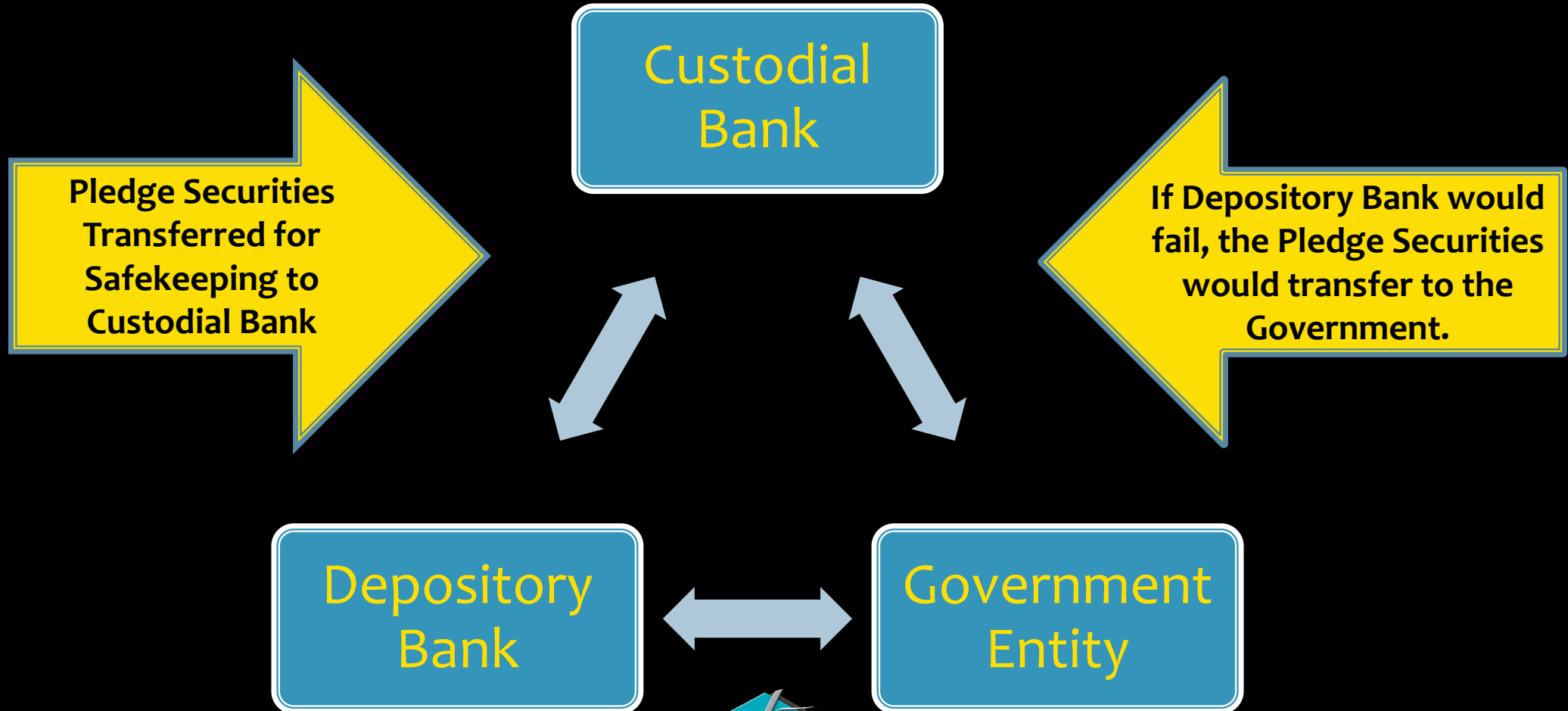
Disclosures...

#8 Deposits and Investments

The background of the slide features a dark blue gradient. On the left and right sides, there are vertical decorative borders. These borders consist of a dense, overlapping pattern of various currency symbols (including the dollar sign, pound sterling, and yen) and numbers, rendered in a metallic, 3D style with a yellow-gold color. The main text is centered in the upper half of the slide in a large, bold, white sans-serif font. Below the text, a thin white horizontal line spans the width of the central text area.

Depository Coverage Compliance: Are Your Bank Balances Protected and Safe?

Tri-Party Agreement



Deposits Need To Be Adequately Secured

Deposits with statutorily authorized financial institutions adequately secured.

Step 1 Review KS Statute

- K.S.A. 9-1402
- K.S.A. 9-1405

Step 2 Corporate Security Bond

- Surety Company in Kansas
- Amount of Deposits less FDIC coverage

Step 3 Pledged Securities

- Security Interest in Securities
- Defined in KSAs... Market Value 100%

Audit Report Filed with the County Attorney in Certain Circumstances

- ❑ K.S.A. 75-1126 requires the auditor to submit a copy of the audit report to the county attorney when the audit indicates violation of a penal statute or discloses reasonable grounds for removal from office.
- ❑ In the KMAAG regulatory compliance checklists, penal statutes are in bold and designated with an asterisk (*).
- ❑ A penal statute is defined in *Black's Law Dictionary* as, "Those which prohibit an act and impose a penalty for the commission of it."

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Disclosures...

#9 Long-Term Debt Commitments

Long-Term Debt Commitments Defined

- ❑ The disclosure of changes in long-term debt should show the following information summarized by type of issue:
 - 1) beginning principal outstanding,
 - 2) additions to principal,
 - 3) reductions of principal,
 - 4) ending principal outstanding, and
 - 5) interest paid.
- ❑ Certain types of issues should be broken down further if they are being paid off with different sources of regulatory receipts.
- ❑ For example, if the municipality has some G.O. bonds being paid off with a tax levy, and other G.O. bonds being paid off with utility receipts, these should be broken down into two types in the disclosure of changes in long-term debt.

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Disclosures...

#11 Litigation Contengencies

Litigation Contingencies Defined

- ❑ All litigation the municipality is involved in should be addressed in this disclosure.
- ❑ This might include nothing more than a general statement that "the city is a party to various claims, none of which is expected to have a material financial impact on the city."
- ❑ Or, certain legal actions might require more discussion.
- ❑ The intent of this disclosure requirement is not to disclose possible contingent liabilities. Rather, the intent is to disclose that the municipality is in litigation.

KMAAG Disclosures... #12 Interfund Transfers

Interfund Transfers Defined

- ❑ KMAAG requires that the audit report disclose interfund transfers.
- ❑ The disclosure should include:
 - 1) funds where the transfer is occurring,
 - 2) the amount of the transfer and
 - 3) the regulatory authority for the transfer.


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Disclosures...

#13 Other Long-term Obligations/ Commitments

Other Long-Term Obligations/Commitments Defined

- ❑ At a minimum these disclosures should be made in qualitative terms.
- ❑ The disclosure should include the municipality's policies regarding the funding of the obligation/commitment.
- ❑ If quantitative amounts are readily available, the amounts should be considered for additional disclosure to enhance the user's understanding of the regulatory basis financial statements.
- ❑ Obligations and commitments that should be considered include but are not limited to:
 - landfill closure costs,
 - other postemployment benefit obligations,
 - termination benefits,
 - compensated absences,
 - self-insurance claims,
 - risk management claims and
 - pension obligations.



**Schedule
#2A, 2B &
2C**

KMAAG Schedule 2



**Schedule
3 & 4**

KMAAG Schedule 3 & 4



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- **Unique things about Schedule #3 & #4 where applicable in your government:**

**Schedule
3 & 4**

- **Agency Funds are reflected on Schedule #3 of the Government under the KMAAG Regulatory Model...Examples of funds that might fit this category:**
 - **Sales Tax Fund**
 - **Payroll Clearing Fund**
 - **Water Meter Deposit Fund**
 - **Any money coming into the government that is not the government's money, but some other government or private entity's money.**
- **District Activity Funds are reflected on Schedule #4 of a School District. They wouldn't apply to a City or a County Government.**






KMAAG Appendix H—Helpful Explanations of Real World Application



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**KMAAG
Financial
Reporting
Checklist
and Final
Review**

KMAAG Wrap-up

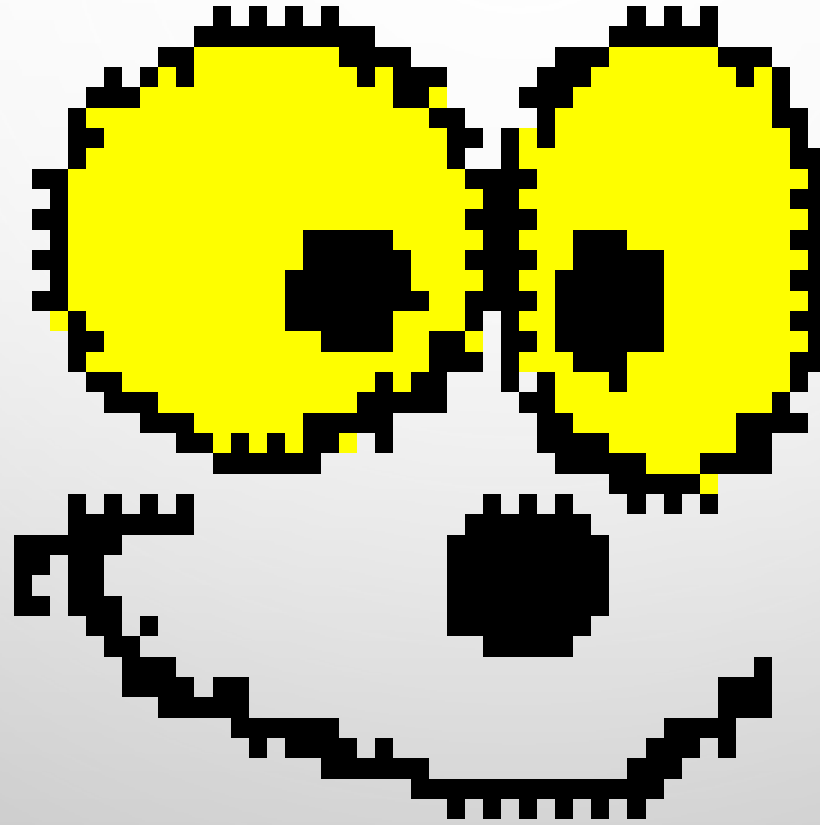


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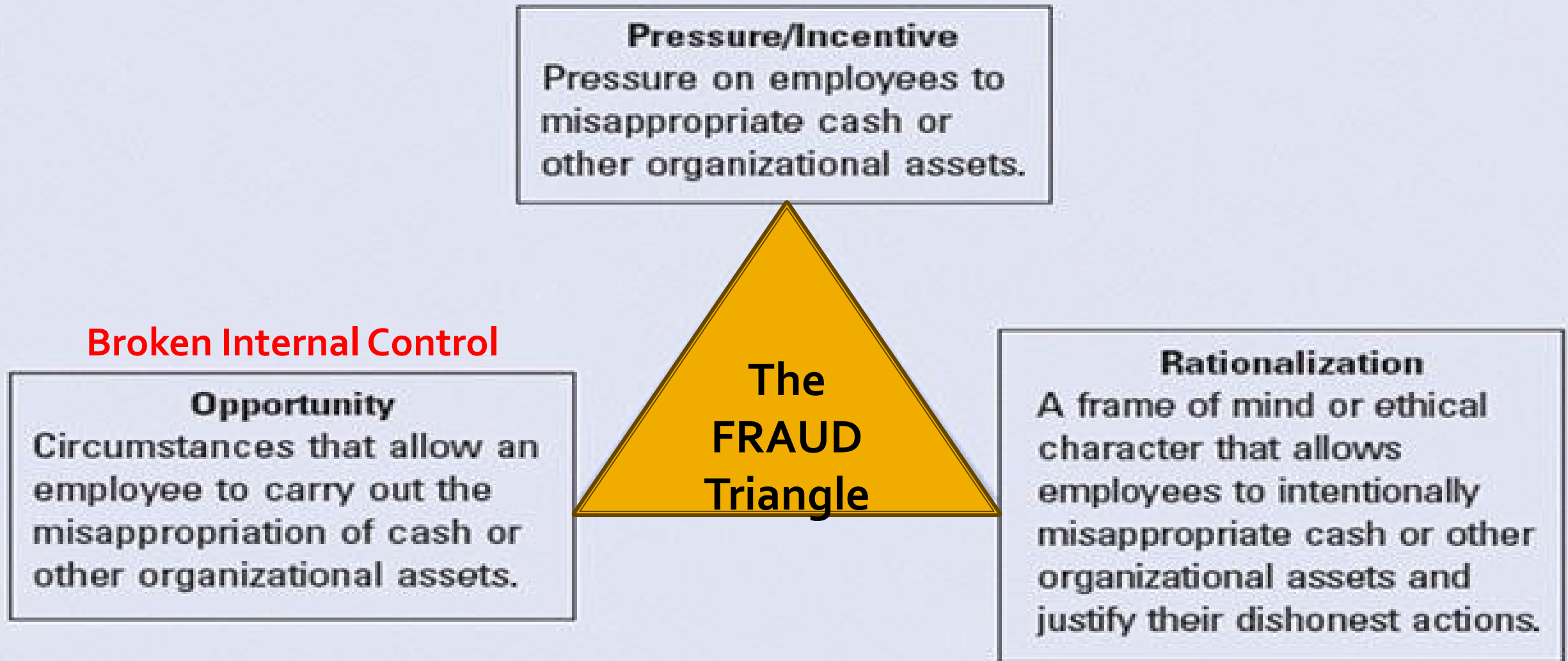


**FINANCIAL
STATEMENT
CLIENT
APPROVAL
CHECKLIST**

WHO IS WATCHING OVER THE
GOVERNMENT'S ASSETS???



Who is watching over the Government's Assets?



Sources: *Occupational Fraud Abuse*, by Joseph T. Wells, CPA, CFE (Obsidian Publishing Co., 1997); *Fraud Examination*, by W. Steve Albrecht (Thomson South-Western Publishing, 2003).

How Do You Learn & Stay Up To Date On KMAAG Compliance, Accounting & Auditing?

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KMAAG 2024

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Salina

Hays

Topeka

Overland Park

Wichita

Dodge City



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2025 KMAAG Updates

- ❑ The latest version includes refinements in audit procedures and clarifications on regulatory reporting.
- ❑ Available for \$90 via the Kansas Society of CPAs (KSCPA) website.



CONSISTENCY

beats intensity

EVERYDAY!

Questions ???

Be the
ENERGY
you want
to attract





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