Intermediate Accounting for the KMAAG User
Spring 2015

Intermediate Accounting
For The KMAAG User

20th Annual Midwest Regional
Public Finance Conference (MRPFC)
April 9-10, 2015
Presenter: D. Scot Loyd, CPA, CGFM, CFE, CGMA

Discussion Topics
- Overview of the Kansas Municipal Audit and Accounting
  Guide (KMAAG) & Significant Changes for 2015
- What transactions do you struggle with in a KMAAG
  regulatory environment?
- How to record the KMAAG transaction on your books?
- How to report that transaction in the KMAAG financial
  statement model?
- Encumbrances or other terms that you might struggle with,
  depository coverage, recording a bond issue in KMAAG?
- What notes should I put in KMAAG when the example of the
  note is not in the examples?

Additional Topics
- Depository Coverage Requirements
- It’s a struggle when the software apps (i.e. Utility Billing
  and Accounts Receivable, etc.) are set up as accrual and
  then need to converted to regulatory basis.
- How often should we put together the KMAAG Financial
  statement, note and schedules? Is preparing the KMAAG
  Regulatory Model acceptable annually?
- Can you present a simple summary of internal controls
  within a local government in the Key Areas? What’s are
  ideal controls? What are acceptable/practical internal
  controls if you don’t have the staff in your organization?
- Does KMAAG Regulatory Reporting have internal controls
  over financial reporting?

Additional Topics
- Are there other ways our local government may be investing
  our idle funds besides local/bank’s certificates of deposits or
  investments in the State of Kansas Municipal Investment Pool?
- What types of computer software are used by the other local
  government participants?
- Our computer software is capable of producing a KMAAG
  financial statement and schedules. What type of numbering
  system would be best to use for the KMAAG Model?

FRAUD RISK IN YOUR CITY OR COUNTY?
You exercise internal control principles in your personal life when you:

- Lock-up valuable belongings
- Keep copies of your tax returns
- Balance your checkbook
- Keep your ATM/debit card PIN number separate from your card
- Make travel plans

Why are Internal Controls Important?

- Compliance with applicable laws and regulations.
- Accomplishment of the entity’s mission.
- Relevant and reliable financial reporting.
- Effective and efficient operations.
- Safeguarding of assets.

Do you consider these situations FRAUD…?

- Over reporting of time actually worked
- Taking sick leave when your not sick
- Using city equipment for personal use
- Making personal calls on cell minutes
- Borrowing cash and repaying the next day…or maybe never?
- Buying state surplus property personally through the City
- What Do Your City Policies Say About These Items and Others????
- Are they required to be reported in KMAAG?

Financial Institutions Checklist for Due Diligence on Municipal Bonds

- Confirm spread to U.S. Treasuries is consistent with bonds of similar credit quality
- Confirm RISK of default is low and consistent with bonds of similar credit quality
- Confirm capacity to pay and assess operating and financial performance levels and trends through internal credit analysis and/or other third party analytics, as appropriate for the particular security
- Evaluate the soundness of a municipal budgetary position and stability of its tax revenues. Consider debt profile and level of unfunded liabilities, diversity of revenue sources taxing authority and management experience
- Understand local demographics/economics. Consider unemployment data, local employers, income indices and home values.
**Basic Terminology**

- **AICPA**, American Institute of Certified Public Accountants.
- **KSCPA**, Kansas Society of Certified Public Accountants.
- **GAAP**, Generally Accepted Accounting Principles.

**KMAAAG “Heads Up”**

- I’m reaching out to you today regarding a matter with the new Uniform Grant Guidance that was issued in December, and the impact on OCBOA.
- The criteria for determining low risk auditees now includes an item that appears to require entities follow GAAP or a *basis of accounting required by state law*.
- A couple weeks ago, I attended the Single Audit Roundtable in Washington DC as part of my service on the Executive Committee for the GAOQ. The Roundtable includes representatives from all the national OIG offices, OMB and GAO. The matter was discussed during that meeting, with myself and others seeking clarification on how to interpret / apply this in practice.
- As you know, entities in Kansas have the option of following GAAP or the regulatory basis – though they are not “required by state law” to follow the regulatory basis if they are, if they opt out of GAAP.
- Many others at the Roundtable from other states expressed similar concerns, as many follow cash or modified cash basis reporting (which is not required by state law).

**Low-Risk Auditee**

200.520 Criteria for a Low-Risk Auditee

- Members of the audit community and states commented on the criteria for a low-risk auditee that includes whether the financial statements were prepared in accordance with GAAP. Members of the audit community note that GAAP is the preferred method, and states note that state law sometimes provides for other methods of preparation. The COFAR considered this and recommended revised language to allow for exceptions where state law requires otherwise.

**NOTE:** State of Kansas calls for GAAP financial statements, but allows for GAAP Waiver. If this was reversed in Kansas State Statute then auditees in Kansas using KMAAAG Regulatory Financial Reporting Framework would still qualify for a Low-Risk Auditee. However, under the current statute the auditee using KMAAAG will not qualify for Low Risk Auditee under the new Single Audit changes effective for
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Low-Risk Auditee (200.520)

Current (2 prior years)
• Annual single audits
• Unmodified opinion on financial statements in accordance with GAAP
• Unmodified SEFA in relation to opinion
• No GAGAS material weaknesses
• In either of preceding two years, none of Type A programs had:
  – Material Weakness
  – Material noncompliance
  – Questionable costs that exceed $5k
• Timely filing with FAC
• Auditor reporting going concern not preclude low-risk
• Waivers

New (2 prior years)
• SAME
• Unmodified opinions on statements in accordance with GAAP or basis of accounting REQUIRED by state law
• SAME
• SAME
• SAME
• SAME
• SAME
• No Audit reporting of going concern
• No waivers

Percentage of Coverage Rule (200.518(f))

• Guidance reduces the minimum coverage as follows:

<table>
<thead>
<tr>
<th>Type of Auditee</th>
<th>Current</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not low-risk</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>Low-risk</td>
<td>25%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Effective Date for Audit Requirements (200.110(b))

• Subpart F will be effective for non-Federal entity Fiscal Years (FY) or biennial periods beginning on or after December 26, 2014.

• First year examples:

• Early implementation of Subpart F is not permitted.

How Do You Handle CHANGE?

“Keep changing. When you’re through changing, you’re through.”

Bruce Barton (1886-1967)

Please ASK QUESTIONS …I am not that tough on you!
What is KMAAG?

Kansas Municipal Audit and Accounting Guide (KMAAG)

A reference for auditing, financial reporting and disclosure issues related to Kansas municipal governmental units.

2015 KANSAS MUNICIPAL AUDIT AND ACCOUNTING GUIDE (KMAAG)

- The 2015 Kansas Municipal Audit and Accounting Guide (KMAAG) is available through the Kansas Society of Certified Public Accountants (KSCPA)
  https://secure.kscpa.org/for_the_public/kansas_municipal_audit_guide
- Any comments you might have should be sent by email to the KMAAG Board of Editors at:
  - info@kscpa.org
- Or by mail to:
  - The KMAAG Board of Editors
    100 SE 9th St, Suite 502
    Topeka, KS 66612-1213

2015 KANSAS MUNICIPAL AUDIT AND ACCOUNTING GUIDE (KMAAG)

- KMAAG Board of Editors:
  - Neil L. Phillips, CPA, Chair
  - D. Scot Loyd, CPA, CGFM, CFE, CGMA, Past-Chair
  - Stephanie Richards, CPA, CGMA (City finance director)
  - Roger Basinger, Kansas Division of Accounts & Reports
  - Mike D. Lowry, CPA
- Special thanks to Mike Crawford of Crawford & Associates, P.C., author of the AICPA Practice Aid, Applying OCBOA in State and Local Government Financial Statements, for sharing his technical expertise and assistance in this revision, and to Karen Mitchell of Kansas Society of CPAs in the coordination of the product.

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)
  - Contractual basis

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

REGULATORY BASIS

- A basis of accounting in accordance with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject
  - Regulator and regulations determine the framework, including measurement, recognition, presentation and disclosure requirements
  - Example: KMAAG - A basis of accounting other than GAAP prescribed by the State of Kansas and KMAAG Board for use in preparing and auditing the financial statement of Kansas municipal governments to be filed with the State
KMAAG Overview

Added the following additional wording to the management responsibility reporting paragraph in the illustrated auditors report

as a result of a new interpretation by the KMAAG Board of Editors with regards to a clarified audit standard. This new Board interpretation takes the position that the KMAAG GAAP waiver and the application of regulatory basis is indeed a management "choice" of reporting frameworks as envisioned by AU-C 800.18. AU-C 800, paragraph .18 states, "That if management has a choice of financial reporting frameworks, the auditor is required to make reference to management's responsibility for determining that the applicable reporting framework is acceptable in the circumstances." See the BOLD in the following paragraph regarding changes to the regulatory basis audit reports in Appendix I going forward.

KMAAG Overview

• “Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note X to meet financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances.”

KMAAG Overview—HIGHLIGHTS!

- Significant Changes—see enclosed
- Preface
- Table of contents
- Introduction
- KMAAG Audit Guidance
- KMAAG Accounting and Financial Reporting Requirements

KMAAG Overview

- Appendix A – 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
- Appendix B – Measurement and Recognition of Elements: KMAAG vs. GAAP
- Appendix C - Example Regulatory Basis Financial Statement and Required Supplementary Information
- Appendix D - Example Note Disclosures
- Appendix E - Guidelines for Activity Funds
- Appendix F - GAAP Waiver Procedures
- Appendix G - Audit and Financial Reporting Alerts

KMAAG Overview

- Appendix H - Confirmation of State Payments to Municipalities
- Appendix I - Utility Fund (Revenue Bond) Audits – Guidelines for Auditing and Financial Reporting
- Appendix J - Conservation District Audits – Guidelines for Auditing and Financial Reporting
- Appendix K - Audits of Unified School Districts – Audits of Community Colleges – Special Single Audit Requirements
### KMAAG Overview

**Does KMAAG apply to me?**

Two-step determination process

1. Is the entity a municipality?
2. Have the criteria outlined in the statutes requiring an all-funds audit, a utility fund audit, or both, been met?

### KMAAG Overview

**What is a municipality?**

- Township
- Municipal university
- Unified school district
- Libraries
- County
- Community college
- Parks
- City

“Any public or quasi-public corporation entitled to receive and hold public moneys pursuant to any provision of state law.”

### KMAAG Overview

**GAAP Basis or Regulatory Basis Financial Statements Required**

<table>
<thead>
<tr>
<th>GAAP Basis</th>
<th>Regulatory Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Requirements</td>
<td>Minimum Requirements</td>
</tr>
<tr>
<td>Basic Financial Statements</td>
<td>If GAAP Basis financials</td>
</tr>
<tr>
<td>Notes to the financial</td>
<td>are not presented, then:</td>
</tr>
<tr>
<td>statements</td>
<td>I. a GAAP waiver resolution</td>
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<tr>
<td>All other supplemental</td>
<td>must be passed, and</td>
</tr>
<tr>
<td>schedules are optional</td>
<td>II. The regulatory basis</td>
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<tr>
<td></td>
<td>financial statement</td>
</tr>
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<td></td>
<td>including regulatory-</td>
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<tr>
<td></td>
<td>required supplementary</td>
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<td></td>
<td>information, must be</td>
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<tr>
<td></td>
<td>presented.</td>
</tr>
</tbody>
</table>

### KMAAG Overview

**GAAP Basis vs GAAP Basis**

**Element = CASH**

<table>
<thead>
<tr>
<th>KMAAG Reg Elec Basis</th>
<th>Difference from GAAP Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>KMAAG Regulatory Basis</td>
<td>KMAAG regulatory basis</td>
</tr>
<tr>
<td></td>
<td>recognition and measurement</td>
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<tr>
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<td>is the same as GAAP, except</td>
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<td>for the recognition of the late</td>
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<td>state aid payment as cash at</td>
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<td>period end or the non-cash</td>
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<tr>
<td></td>
<td>receipts and disbursements</td>
</tr>
<tr>
<td></td>
<td>related to salaries from Kansas</td>
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<tr>
<td></td>
<td>State University for County</td>
</tr>
<tr>
<td></td>
<td>Extension Councils.</td>
</tr>
</tbody>
</table>

**Examples**

- Township
- Municipal university
- Unified school district
- Libraries
- County
- Community college
- Parks
- City

“Any public or quasi-public corporation entitled to receive and hold public moneys pursuant to any provision of state law.”
Permanent impairments.

Reported at cost unless permanently impaired.

**KMAAG Regulatory Basis vs GAAP Basis**

<table>
<thead>
<tr>
<th>Element</th>
<th>Difference from GAAP Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>INVESTMENTS</td>
<td>KMAAG regulatory basis recognition and measurement is the same as GAAP, except that land and other real estate held by endowments and permanent funds included in GAAP investments is excluded in KMAAG, and in GAAP the investments are reported at fair value rather than cost.</td>
</tr>
</tbody>
</table>

**KMAAG Regulatory Basis vs GAAP Basis**

<table>
<thead>
<tr>
<th>Element</th>
<th>Difference from GAAP Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>RECEIPTS</td>
<td>Revenue is recognized when earned and either cash (if received) or a receivable (if cash is not received) is recorded, subject to accrual basis treatment in proprietary and fiduciary funds and modified accrual treatment in governmental funds.</td>
</tr>
</tbody>
</table>

**Audit of Cash—Is it Correct?**

Late state payment would be recognized as a revenue but in the form of a receivable in the fiscal year under audit.

**KMAAG Regulatory Basis vs GAAP Basis**

<table>
<thead>
<tr>
<th>Element</th>
<th>Difference from GAAP Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYABLES</td>
<td>KMAAG regulatory basis recognition and measurement is the same as GAAP, except that all accrued liabilities and obligations would be recognized, regardless of whether they were due and payable at fiscal year end. For example, GAAP payables or liabilities would include all types of payables, including accrued interest, compensated absences, capital leases, bonds, notes and other debt, and retirement or post-employment benefit obligations.</td>
</tr>
</tbody>
</table>
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### KMAAG Regulatory Basis vs GAAP Basis

#### Element = ENCUMBRANCES

**KMAAG Regulatory Basis**
Expenditures recognized when an outstanding commitment related to an unperformed (executory) contract for goods or services exists. This is a commitment only where services have not been completed or the goods have not been received by the end of the fiscal year. Evidence of commitment is generally in the form of an open purchase order or unexecuted contract.

**Difference from GAAP Basis**
Encumbrances do not constitute an expense or expenditure on a GAAP basis. Under GAAP, outstanding encumbrances would be reported merely as a form of constraint on ending fund balance of a governmental fund.

### KMAAG Regulatory Basis vs GAAP Basis

#### Element = UNENCUMBERED CASH AND INVESTMENTS

**KMAAG Regulatory Basis**
Represents a mathematical computation of the sum of a fund’s cash and investments less its payables and outstanding encumbrances as defined above.

**Difference from GAAP Basis**
GAAP does not recognize or report unencumbered cash and investments.

### Capital Asset and Infrastructure Reporting—Friend or Foe?

**Big Differences between GAAP and KMAAG Regulatory Reporting**

### GAAP Capital Assets Reporting

- **Definition**
  - tangible or nontangible assets used in operations
  - initial useful life extends beyond single reporting period
  - includes:
    - land
    - improvements to land
    - easements
    - buildings
    - building improvements
    - vehicles
    - machinery
    - equipment
    - works of art and historical treasures
    - infrastructure

### GAAP Infrastructure Issues

- Identifying general infrastructure assets
- Determining major general infrastructure assets
- Calculating estimated historical cost
- Modified approach

### GAAP Infrastructure—Definition

- Long-lived capital assets
  - stationary in nature
  - last longer than most capital assets
- Examples
  - roads, bridges, tunnels, drainage systems, water systems, sewer systems, dams, lighting systems
  - buildings generally NOT classified as infrastructure
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### KMAAG Capital Assets and Infrastructure Reporting

- **How do these long-lived capital assets & infrastructure get recorded in a KMAAG Regulatory Reporting environment?**
  - **Capital Asset examples:**
    - land
    - improvements to land
    - equipment
    - works of art and historical treasures
  - **Infrastructure examples:**
    - roads, bridges, tunnels, drainage systems, water systems, sewer systems, dams, lighting systems
    - buildings generally NOT classified as infrastructure

### KMAAG Small Revision

**Prior wording is:**

- Special Purpose Funds—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.

**Wording in new KMAAG:**

- Special Purpose Fund—used to account for the proceeds of specific tax levies and other specific regulatory receipt sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

### KMAAG Changes

The **Net Pension Liability** paragraph was added to the defined benefit pension plan example footnote in Appendix D to disclose the municipality’s proportionate share of the Net Pension Liability.

### Net Pension Liability footnote

- **Net Pension Liability.** The total pension liability for KPERS was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014. As of June 30, 2014 the net pension liability for KPERS was $8,291,794,910. KPERS has determined the District’s proportionate share of the net pension liability is $_______________ as of June 30, 2014. The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at [www.kpers.org](http://www.kpers.org) or can be obtained as described in the first paragraph above.

- **Note to the KMAAG reader:** The report expected to be issued by KPERS containing the allocation of the net pension liability to participating entities may not be available from KPERS for those entities who will be issuing reports with fiscal years ending December 31, 2014 in early 2015. It is not known at the time of this publishing date when this information will be available from KPERS. If the KPERS report is not available at the time the District issues their financial statements, it would not be appropriate to disclose the Net Pension Liability footnote.
**KMAAG Changes**
Beginning January 1, 2015, audit reports must be filed in an electronic format with the Department of Administration. Instructions can be found on the department’s website at [http://www.admin.ks.gov/offices/chief-financial-officer/municipal-services](http://www.admin.ks.gov/offices/chief-financial-officer/municipal-services)

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**2015 Statute change in Legislative session—SB 247**
- Update from Roger Basinger on potential statute change for audit threshold increase to $750,000 and to treat Rec Commissions like any other municipalities.
- Amounts provided by Roger Basinger based on 2012 audits filed with his office:
  - No audit coverage loss on USDs or Counties.
  - Cities – 261 audits filed – We would lose 33 at the 500K threshold and 64 at the 750K threshold.
  - Recreation Commissions – 28 audits filed – Would lose 15 at 500K and 18 at 750K.

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**2015 Statute change in Legislative session—SB 247**
- Amounts provided by Roger Basinger based on 2012 audits filed with his office (con’t):
  - RWD – 36 audits filed – Would lose 16 at 500K and 22 at 750K.
  - Miscellaneous – 54 audits filed – Would lose 15 at 500K and 25 at 750K.
  - Library – 18 audits filed – Would lose 4 at 500K and 8 at 750K.
  - Hospital – 74 audits filed – Would lose 1 at 500K and 1 at 750K.

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**KMAAG Overview**
- **Appendix C** - Example Regulatory Basis Financial Statement and Accompanying Supplementary Information in the KMAAG Prescribed Format
- The [**basic financial statement**](#) the auditor will opine on is the “Summary Statement of Cash Receipts, Expenditures and Unencumbered Cash”.
- The remaining financial information accompanying the basic financial statement will now be [**referred to as supplemental information**](#) and the term “statement” has been changed to “schedule”.

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**KMAAG Overview**
- The [**basic financial statement**](#) the auditor will opine on is the “Summary Statement of Cash Receipts, Expenditures and Unencumbered Cash”.
- The remaining financial information accompanying the basic financial statement will now be **referred to as supplemental information** and the term “statement” has been changed to “schedule”.

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**11**
MAKE ALL AJE’S, YE TRANSFERS and corrections of any G/L entry errors

- It is very important to get all budgeted transfers, year-end closing transfers and any other adjustments/corrections that need to be made to get the general ledger/computer balances in agreement with account reconciliations.
- **THIS IS HUGE** before closing your G/L or computer program. If this step is done properly it makes your start to the financial statement preparation process so much easier!

Review list of encumbrances for completeness and list by fund on Statement 1

- Things to consider when looking at the list of encumbrances for completeness:
  - Were there any special project disbursements identified in the current year budget, when the budget was originally assembled 18 months ago, that have not been disbursed?
  - Did the council/commission/board identify certain disbursements that need to be charged back as an encumbrance to the current year’s budget?

What Would You Consider a Strange Transaction?

- **Lease-purchases in a KMAAG?** How is it recorded? Does it appear in the Notes to the FS?
- **Budget Credits?** How do we record budget credits in the KMAAG Financial Statement? Can the reimbursement occur in the following fiscal year?
- **Borrowing From Your Own Entity?** Can this be done? How do you record this transaction? Does it show up in the Long-term debt Note?
- **Reimbursement Grant spent in current fiscal year?** Can you show negative encumbered cash balance and not create a cash basis violation?

Review list of encumbrances for completeness and list by fund on Statement 1

- Things to consider when looking at the list of encumbrances for completeness (cont’t):
  - **Review the governing body minutes** for any special projects mentioned or contracts that were signed before year end. These could be encumbrances that have been overlooked.
  - When you pay your bills the month following your fiscal year end, make sure you look at the invoice date you are paying from...there may be unrecorded disbursements that need to be charged back to the previous fiscal year’s budget.

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REVIEW TIME
CITY OF EXAMPLE

City of Example
• Does KMAAG require the Title page and Index?
• How many financial statement(s) does the KMAAG regulatory model have?
• How is materiality determined on the new KMAAG model by most auditing firms?
• Who is responsible for the financial statement, notes and schedules?
• What financial information do you need to gather?
• Where do you find the financial information?

City of Example
• This example has the basic financial statement, notes and schedules.
• When putting a KMAAG regulatory basis financial statement, notes and schedules together, would you consider KMAAG the maximum or minimum?
• How could I tell if there is a violation of cash basis law? Where all would I look to determine this statutory violation?
• How could I tell if there is a budget violation? Where all would I look to determine this statutory violation?

KMAAG Overview
Note Disclosures for the KMAAG Regulatory Basis Financial Statement
• GAAS states that, "Financial statements prepared in accordance with a special purpose framework (such a regulatory basis of accounting) should include, in the accompany notes, a summary of significant accounting policies that discusses the special purpose framework and describes how that basis differs from generally accepted accounting principles.

KMAAG Overview
The following note disclosures, if applicable, should accompany the KMAAG Regulatory Basis Financial Statement.
• Financial Reporting Entity
• Regulatory Basis Fund Types
• Basis of Presentation and Basis of Accounting
  • In-substance Receipt in Transit
    – (School Districts only)
• Budgetary Information

NOTE:
• (1) The auditor should also evaluate whether additional disclosures, beyond those specifically required by the framework, related matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation.
• (2) All note disclosures are subject to materiality considerations under KMAAG. Refer to page 8 of the KMAAG introduction for a listing of mandatory note disclosures.
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KMAAG Overview
The following note disclosures, if applicable, should accompany the KMAAG Regulatory Basis
Financial Statement (Continued).
• Compliance with Finance-Related Legal and Contractual Provisions
• Deficit Cash/Unencumbered Cash for Individual Funds
• Deposits and Investments

KMAAG Overview
The following note disclosures, if applicable, should accompany the KMAAG Regulatory Basis
Financial Statement (Continued).
• Long-Term Debt Commitments
• Capital Projects Compliance
• Litigation Contingencies
• Interfund Transfers
• Other Long-term Obligations/Commitments

City of Example—Note 1
• 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 Overview
KMAAG Regulatory Basis 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 Overview
KMAAG Regulatory Basis 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.
• 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 Overview
KMAAG Regulatory Basis definitions:
• **Agency fund** - funds used to report assets held by the municipal reporting entity in a purely custodial capacity (payroll clearing fund, city treasurer tax collection accounts, etc.)

City of Example—Note 2
• 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?

City of Example—Note 3
• 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?

City of Example—Note 4
• 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?

City of Example—Note 5
• 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?

City of Example—Note 6
• 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 Overview

• Optional Note - Other Entities Qualitatively Disclosed

  The (city/county/school district) has the following entities that do not qualify as a required municipal entity, but are disclosed qualitatively for the reader of the regulatory basis financial statement. The (city/county/school district) has elected to disclose the following information about the ventures or entities:
  • Name of entity and type of entity,
  • Their relationship to the reporting government,
  • What responsibilities or obligations the government has in relation to them, and
  • Disclosure that the activity of these entities are not included in the report.

City of Example—Note 7
• 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?

City of Example—Note 8
• 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?

City of Example—Note 9
• 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?

City of Example—Note 10
• 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?
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City of Example—Expansion
Recently, one of the very successful corporations in the City of Example decided to give a large amount of money to the expansion of the City boundaries by adding a very large housing subdivision, which also includes a new baseball/softball field complex, walking park, dog park, new playground equipment and special street lighting needs.

City of Example—Expansion
• As part of the gift from the corporation the City is asked to contribute certain services to the subdivision expansion and additional recreation facilities and parks.
• Also, with the increased population due to the new subdivision, the sewer facilities will not be sufficient to handle the added waste disposal.

City of Example—Expansion
• The new subdivision will need water, gas and electric hookups for the houses that are added over the next few years. This subdivision is expected to grow quickly, so the City will have to put substantially all the utility services in place.
• The City is responsible for the water, sewer and electric services.

City of Example—Expansion
• The City has not needed a Capital Project Fund for several years, due to the City staying about the same size. So the newer City Finance Director and new City Clerk will need assistance in setting up the proper fund(s) and accounts to record the financial transactions required to handle these types of transactions within the City’s records and the KMAAG Financial Statement/Schedules for the coming year.

City of Example—Expansion
• City of Example major expected costs due to the new subdivision:
  – Electrical services extended, which requires a new sub station in the area to provided for the additional electrical requirements. Price tag = $3,000,000
  – The sewer lagoons will have to be expanded to handle the extra capacity created by the new subdivision. This is an estimated cost of about $2,500,000.
  – The City of Example has limited capacity to add the additional capacity for water usage to their current water system. They get their water from underground aquifers. This will cause the City to find new land and drilling opportunities. Price tag about $500,000.

City of Example—Expansion
• City of Example major expected costs due to the new subdivision:
  – The recreation commission wants to put some additional funds towards the ball fields. This is going to create additional capital asset purchases the recreation commission is going to have to have the City’s assistance. Lease purchase funding of about $200,000 in addition to the Corporation’s gift.
  – Due to the added acreage of the new subdivision, there will be a need for one full time employee in the Utilities division of the City and two part staff people to handle the added mowing and upkeep of the recreation facilities. One full-time and two part-time employees with benefits will cost about $75,000 annually.

City of Example—Expansion
• City of Example major expected costs due to the new subdivision:
  – The City of Example expected costs due to the new subdivision:
  – The City of Example expected costs due to the new subdivision:
City of Example—Expansion
• City of Example major expected costs due to the new subdivision (con’t):
  – This added traffic to the new subdivision will cause some additional improvements to the existing streets to help with traffic flow. These improvements will cost about $500,000.
  – The City wants to save some money back for future upkeep to this very nice area of the City. They will set back about $100,000 in the current year to start this revitalization fund for future upkeep.

City of Example—Expansion
• How is the City of Example going to fund these additional facilities?
  – U.S. Department of Agriculture—Water and Waste Disposal Systems for Rural Communities Federal Funding available for about $2,000,000 towards the water and sewer improvements.
  – Since we are short about $1,000,000 on the Water and Sewer improvements Kansas Department of Health and Environment is willing to loan us about $750,000 on a 3% loan for about 30 years.
  – The remaining $250,000 water and sewer improvements will have to be included in the new bond issue required for this new addition to the City.
  – The local bank is willing to provide a lease purchase to the City for the additional $200,000 of improvements at the ball fields @ 3.5%, 10 years.
  – The remaining $3,500,000 of Electrical and Street improvements will be financed by a General Obligation Bond issued for 20 years @ 2.99%.

City of Example—Expansion
• The Finance Director is making a list of all the things that are going to have to be done in the December 31, 2014 Financial Statements. This new project started in the middle of 2013 before the Finance Director’s arrival and was all finalized in the 2014. All funding and expenditures for this project will run through the KMAAG Financial Statement for the 2014 year. The Finance Director had attended a KMAAG update training in November of 2013 in preparation for her new position at the City of Example.
• Some of the items talked about at the KMAAG training was to make sure all adjusting entries, planned transfers and correcting entries have been made before starting on the KMAAG financial statements.
• She knows there will be additional flow of funds through the completion of this project. She wants to make sure the December 31, 2014 KMAAG financial statement, notes and schedules are appropriately updated for the new project, since this Capital Project Fund was not shown in the December 31, 2013 KMAAG Financial Statement or the 2014 City Budget.

KMAAG Overview
KMAAG Regulatory Basis definitions:
• Municipal Financial Reporting Entity – the municipality as defined in K.S.A. 75-1117 and any included related municipal entities.
• Related Municipal Entity – legally separate municipal organization which was established to benefit the municipality or its constituents.
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**KMAAG Overview**

**KMAAG Regulatory Financial Reporting Entity**

- In situations where a related municipal entity, as defined by KMAAG, meets the audit requirements of K.S.A. 75-1122, the municipality may elect to include the related municipal entity in the regulatory basis presentation of the municipality as part of the regulatory basis reporting entity.

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**KMAAG Overview**

**KMAAG Regulatory Financial Reporting Entity**

- If the municipality elects not to include the related municipal entity in its regulatory basis presentation as part of the regulatory basis reporting entity, and the related municipal entity meets the threshold for a required audit under K.S.A. 75-1122, the related municipal entity is responsible for obtaining a separate audit as required by K.S.A. 75-1122.

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**KMAAG Overview**

**KMAAG Regulatory Financial Reporting Entity**

- Inclusion of related municipal entities that do not meet the threshold for a required audit under K.S.A. 75-1122 is the option of the municipality but not required by KMAAG.

- The notes to the regulatory financial statement should identify and describe the municipality and clearly indicate which, if any, related municipal entities are included in the regulatory basis financial statement as part of the regulatory basis reporting entity.

- PLEASE REMEMBER...KMAAG is the minimum!

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**Evaluate Related Municipal Entity (RME)**

1. **Step 1: Are there any RMEs to report?**
   - Note: Proceed with reporting the Municipality ONLY; use Appendix A for Audit Report
   - Proceed if Governing Body wants to include at least one RME. Report as Municipal Financial Reporting Entity. Use Report A-3 Audit Report

2. **Step 2: Evaluate RME to Report?**
   - Part of the Municipality (PM) – Municipal organizations that are not considered legally separate entities and derive their corporate power from the municipality. These separate municipal organizations are so intertwined with the municipality that they are, in substance, the same as the municipality and should be reported as part of the municipality.
   - Parts of the municipality are generally included in the municipal financial reporting entity as defined by KMAAG, however, a part of the municipality may be excluded from the regulatory financial reporting entity at the election of the municipality’s governing body if the PM meets both of the following criteria:
     - 1) The PM has a governing body separate from that of the municipality; and
     - 2) The PM’s financial statement is audited separate from that of the municipality.

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**KMAAG Overview**

**KMAAG Regulatory Financial Reporting Entity**

- Updated the Municipal Financial Reporting Entity definition for the expansion of the Part of the Municipality (PM) definition added to the list of KMAAG definitions.

- Added the expanded definition for Part of the Municipality (PM) in other locations of the KMAAG.

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**KMAAG Overview**

**KMAAG Regulatory Financial Reporting Entity**

- Part of a Municipality (PM) – Municipal organizations that are not considered legally separate entities and derive their corporate power from the municipality. These separate municipal organizations are so intertwined with the municipality that they are, in substance, the same as the municipality and should be reported as part of the municipality.

- Parts of the municipality are generally included in the municipal financial reporting entity as defined by KMAAG, however, a part of the municipality may be excluded from the regulatory financial reporting entity at the election of the municipality’s governing body if the PM meets both of the following criteria:
  - 1) The PM has a governing body separate from that of the municipality; and
  - 2) The PM’s financial statement is audited separate from that of the municipality.
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#### Part of the Municipality (PM)

- Ambulance Service Taxing District
- Business Improvement Districts
- Cemetery Districts created by township under K.S.A. 15-1013.
- Cemetery
- Housing Authorities

- Clerk of the District Court
- Drainage Districts
- Area vocational school, Type I
- School Free Fair
- Fire Districts
- Board of health – single School

#### Part of the Municipality (PM)

- Single-School Juvenile Detention Facilities
- “USD” public library
- Law library
- Public Building Commissions
- Regional planning commissions created by a School or School under K.S.A. 12-76

- Kansas School Board of Public Utilities
- Leavenworth Waterworks Board
- Community Mental Health Centers
- Self-Supported Municipal Improvement Districts
- School hospitals

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### Evaluate Part of a Municipality (PM)

1. **Step 1**: Are there any PMs to report?
   - **No**: Proceed with reporting the Municipality or the Municipal Financial Reporting Entity.
   - **Yes**: Evaluate PMs to Report

2. **Step 2**: Does the PM have a separate governing body or receive a separate audit?
   - **No**: then the PM has to be reported on the Municipality’s financial statement.
   - **Yes**: Proceed with Step 3.

3. **Step 3**: The PM receive a separate independent audit.
   - **No**: then the PM may allow the PM to be left out of Municipality’s KMAAG Financial statement.
   - **Yes**: Proceed with Step 4.

4. **Step 4**: The PM receive a separate independent audit.
   - **No**: then the PM has to be reported on the Municipality’s financial statement.
   - **Yes**: then the Municipalities may leave the PM out of their KMAAG financial statement.

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### KMAAG Overview

**Appendix M**

**Practice Aid for the Determination of the Principal Reporting Entity Under the Provisions of KMAAG**

- Organizations that are recognized as tax exempt under the Internal Revenue Service Code Section 501(c) are not included within the definition of municipalities and as such are not subject to the requirements of KMAAG.
- This practice aid includes most, but not all, entities that may encounter in the determination of the municipal financial reporting entity.

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### KMAAG Overview

**Appendix M**

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.
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WHO’S RESPONSIBLE FOR THE KMAAG FINANCIAL STATEMENT?

What is YOUR Conclusion?
In Some Cases This May Be Needed to Be Independent in Fact and Appearance?

Preparer & Auditor
Preparer
Auditor

Final steps in completing a KMAAG financial statement for issuance

KMAAG Financial Statement Audit Report Tickmark Legend to ensure agreement between the Statement, Notes, Schedules, SEFA (if applicable), supporting info and other appropriate information required.

Financial Statement Client Approval Checklist

Mike Crawford’s (my co-author/friend) Four C’s of Financial Statement Preparation

• The Four C’s:
  – Completeness
  – Consistency
  – Compliance
  – Clarity
• These really fit with today’s discussion and the ultimate goal of our training session...get GREAT financial statements out the door!

Government Auditing Standards Routine Audit Services and Nonaudit Services

Services that are specifically identified as nonaudit services include:
– Financial statement preparation
– Bookkeeping services
– Cash to accrual conversions (a form of bookkeeping)
– Other services not directly related to the audit
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**Assessing Management’s Skill, Knowledge, or Experience**
- Factors to document include management’s:
  - Understanding of the nature of the nonaudit service
  - 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

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**The Prudent Official Test**
- The auditor should consider whether a prudent official (having the auditor’s knowledge about the facts and circumstances, the magnitude and probability of occurrence of the potential misstatement, and the other controls that were tested) would agree with the auditor’s conclusion that a deficiency is not a material weakness.
- Because a prudent official is cautious, the prudent official test is used only to increase the severity of a deficiency in internal control and not to justify a decrease in the severity.

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**What Would Materially Misstate your Government’s Financial Statements?**
- Petty Cash fund was not reported on FS?
- Invoice from Lumber yard was not included in Accounts Payable/Encumbrances of YE FS?
- What if you have 12 payments of Utilities or disbursements that don’t change from January 2012 to January 2013, is there any reason to encumber? If it was large enough would these transactions misstate any element of the KMAAG Financial Statement?
- Contract was signed by Board of Education on June 1st for $500,000 building project, but was not paid for till October of following fiscal year?

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**KMAAG Financial Statement Preparation**

**ALL Steps Completed**

#1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, & 21

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**PAY ATTENTION to the details in the FS!!!!**
Celebrate Success

Each night before my children go to bed I ask them what their success of the day is. The idea came from a story I read about the Olympic gymnast, Bart Connor. Turns out 9 months before the 1984 Olympics he tore his bicep muscle. They said he would never make it back in time to compete in the Olympics. But not only did he make it back, he won two gold medals. When Charlie Jones, the television broadcaster, was interviewing him, he asked Bart how he did it. Bart thanked his parents. Charlie Jones said, "Come on Bart, everyone thanks their parents when they win a gold medal." Bart told Charlie that this was different. He said, "Every night before bed my parents would ask me what my success was. So I went to bed a success every night of my life. I woke up every morning a success. When I was injured before the Olympics, I knew I was going to make it back because I was a success every day of my life." Talk about a confidence booster.

Questions?

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Extracted from Jon Gordon’s weekly newsletter!