

1 AN ACT relating to special purpose governmental entities.

2 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

3 ➔Section 1. KRS 65A.030 is amended to read as follows:

4 (1) For fiscal periods beginning on or after **July 1, 2026**~~[July 1, 2014]~~, requirements
5 relating to audits and financial statements of special purpose governmental entities
6 are as follows:

7 (a) Every special purpose governmental entity with the higher of annual receipts
8 from all sources or annual expenditures of less than **one hundred fifty**
9 **thousand dollars (\$150,000)**~~[one hundred thousand dollars (\$100,000)]~~ shall:

- 10 1. Annually prepare a financial statement; and
- 11 2. Once every four (4) years, contract for the application of an attestation
12 engagement as determined by the DLG, as provided in subsection (2) of
13 this section;

14 (b) Every special purpose governmental entity with the higher of annual receipts
15 from all sources or annual expenditures equal to or greater than **one hundred**
16 **fifty thousand dollars (\$150,000)**~~[one hundred thousand dollars (\$100,000)]~~
17 but less than **seven hundred thousand dollars (\$700,000)**~~[five hundred~~
18 ~~thousand dollars (\$500,000)]~~ shall:

- 19 1. Annually prepare a financial statement; and
- 20 2. Once every four (4) years, contract for the provision of an independent
21 audit as provided in subsection (2) of this section; and

22 (c) Every special purpose governmental entity with the higher of annual receipts
23 from all sources or annual expenditures equal to or greater than **seven**
24 **hundred thousand dollars (\$700,000)**~~[five hundred thousand dollars~~
25 ~~(\$500,000)]~~ shall:

- 26 1. Annually prepare a financial statement; and
- 27 2. Be audited annually as provided in subsection (2) of this section.

- 1 (2) (a) To provide for the performance of an audit or attestation engagement as
2 provided in subsection (1)(a) to (c) of this section, the governing body of a
3 special purpose governmental entity shall employ an independent certified
4 public accountant or contract with the Auditor of Public Accounts to conduct
5 the audit or attestation engagement unless the provisions of subsection (3) of
6 this section apply.
- 7 (b) The audit or attestation engagement shall be completed no later than twelve
8 (12) months following the close of the fiscal year subject to the audit or the
9 attestation engagement.
- 10 (c) 1. The special purpose governmental entity shall submit for publication on
11 the registry the audit or attestation engagement, in the form and format
12 required by the DLG.
- 13 2. A federally regulated municipal utility may comply with the
14 requirements of this section for the public power component of its
15 operations by submitting an audit that conforms to the requirements
16 imposed by the federal agency with which it maintains a wholesale
17 power contract.
- 18 3. A public utility established pursuant to KRS 96.740 that is not a
19 federally regulated municipal utility may comply with the requirements
20 of this section for the public power component of its operations by
21 submitting a copy of its annual audit performed under KRS 96.840.
- 22 (d) 1. The audit or attestation engagement shall conform to:
- 23 a. Generally accepted governmental auditing or attestation standards,
24 which means those standards for audits or attestations of
25 governmental organizations, programs, activities, and functions
26 issued by the Comptroller General of the United States;
- 27 b. Generally accepted auditing or attestation standards, which means

- 1 those standards for all audits or attestations promulgated by the
2 American Institute of Certified Public Accountants; and
- 3 c. Additional procedures and reporting requirements as may be
4 required by the Auditor of Public Accounts.
- 5 2. Rather than meeting the standards established by subparagraph 1. of this
6 paragraph, the audit submitted by a federally regulated municipal utility
7 or a public utility established pursuant to KRS 96.740 that is not a
8 federally regulated municipal utility with regard to the public power
9 component of the utility's operations shall conform to KRS 96.840 and
10 the financial standards of the Federal Energy Regulatory Commission's
11 Uniform System of Accounts.
- 12 (e) Upon request, the Auditor of Public Accounts may review the final report and
13 all related work papers and documents of the independent certified public
14 accountant relating to the audit or attestation engagement.
- 15 (f) If a special purpose governmental entity is required by another provision of
16 law to audit its funds more frequently or more stringently than is required by
17 this section, the special purpose governmental entity shall comply with the
18 provisions of that law, and shall comply with the requirements of paragraph
19 (c) of this subsection.
- 20 (g) Notwithstanding any provision of the Kentucky Revised Statutes to the
21 contrary, a unit of government furnishing funds directly to a special purpose
22 governmental entity may require additional audits at the expense of the unit of
23 government furnishing the funds.
- 24 (h) All audit reports, attestation engagement reports, and financial statements of
25 special purpose governmental entities shall be public records.
- 26 (3) (a) Any board, commission, or agency established by statute with regulatory
27 authority or oversight responsibilities for a category of special purpose

- 1 governmental entities may apply to the Auditor of Public Accounts to be
2 approved to provide an alternative financial review of the special purpose
3 governmental entities it regulates or oversees that are required by subsection
4 (1)(a) of this section to submit an attestation engagement. The application
5 shall be in the form and format determined by the Auditor of Public Accounts.
- 6 (b) The Auditor of Public Accounts shall review the application and if the auditor
7 determines that the board, commission, or agency has the resources and
8 capacity to conduct an acceptable alternative financial review, the auditor
9 shall notify the DLG that the board, commission, or agency is approved to
10 provide an alternative financial review of the special purpose governmental
11 entities it regulates or oversees that are required by subsection (1)(a) of this
12 section to submit an attestation engagement.
- 13 (c) The Auditor of Public Accounts shall advise the DLG and the board,
14 commission, or agency regarding modifications to the proposed alternative
15 financial review procedures necessary to obtain the Auditor of Public
16 Accounts' approval.
- 17 (d) Any board, commission, or agency approved to provide alternative financial
18 reviews shall reapply to the Auditor of Public Accounts for approval to
19 continue to provide alternative financial reviews at least every four (4) years.
20 The Auditor of Public Accounts may require more frequent approvals.
- 21 (e) The Auditor of Public Accounts or the DLG may withdraw any approval
22 granted under this subsection if the board, commission, or agency fails to
23 conduct alternative financial reviews using the procedures and including the
24 terms and components agreed to with the DLG.
- 25 (f) Any board, commission, or agency approved to provide alternative financial
26 reviews shall notify the Auditor of Public Accounts and the DLG if an
27 irregularity is found in the alternative financial review.

1 (g) Any special purpose governmental entity subject to regulation or oversight by
2 a board, commission, or agency that obtains approval to provide an alternative
3 financial review under this subsection shall have the option of having an
4 alternative financial review performed by the board, commission, or agency,
5 or may contract for the application of an attestation engagement as provided
6 in subsection (1)(a) of this section.

7 (4) The DLG shall determine which procedures conducted under attestation standards
8 will apply to special purpose governmental entities meeting the conditions
9 established by subsection (1)(a) of this section. The DLG may determine that
10 additional procedures be conducted under attestation standards for specific
11 categories of special purpose governmental entities or for specific special purpose
12 governmental entities, as needed, to obtain the oversight and information deemed
13 necessary by the DLG.

14 (5) Based on the information submitted by special purpose governmental entities under
15 KRS 65A.020 and 65A.090, the DLG shall determine when each special purpose
16 governmental entity was last audited, and shall notify the special purpose
17 governmental entity of when each audit or attestation engagement is due under the
18 new standards and requirements of this section.

19 (6) (a) In determining the requirements relating to audits and financial statements of
20 special purpose governmental entities under subsection (1) of this section, the
21 DLG may exclude annual receipts received by the special purpose
22 governmental entity if:

23 1. The receipts constitute nonrecurring, nonoperating grants for the
24 purpose of capital asset acquisition, capital construction, disaster
25 recovery efforts, or other one (1) time purposes as determined by the
26 DLG; and

27 2. The special purpose governmental entity requests, in writing to the DLG

1 and for each fiscal year it receives the revenue in question, that the
2 revenues in question not be included in determining its annual revenues.

3 (b) In determining the requirements relating to audits and financial statements
4 under subsection (1) of this section of special purpose governmental entities
5 that are public use airports operating under KRS 183.132 to 183.160, the DLG
6 may exclude annual receipts received by those public use airports if the
7 receipts constitute nonoperating or recurring grants for the purpose of capital
8 asset acquisition, capital construction, disaster recovery efforts, or other one
9 (1) time purposes as determined by the DLG.

10 (c) Any receipts excluded under paragraph (a) or (b) of this subsection shall still
11 be reported as required under KRS 65A.020(2)(a)2.

12 (7) The DLG may promulgate administrative regulations in accordance with ~~pursuant~~
13 ~~to~~ KRS Chapter 13A to implement ~~the provisions of~~ this section.

14 ➔Section 2. KRS 65A.010 is amended to read as follows:

15 As used in this chapter:

16 (1) "County" means any county, consolidated local government, urban-county
17 government, unified local government, or charter county;

18 (2) "DLG" means the Department for Local Government established by KRS
19 147A.002;

20 (3) "Establishing entity" means the city or county, or any combination of cities and
21 counties, that established a special purpose governmental entity and that has not
22 subsequently withdrawn its affiliation with the special purpose governmental entity
23 by ordinance or other official action;

24 (4) "Federally regulated municipal utility" means a municipal utility governed by the
25 provisions of KRS 96.550 to 96.901, that maintains a wholesale power contract
26 with a federal agency that also serves as its regulatory authority;

27 (5) (a) "Fee" means any user charge, levy, assessment, fee, schedule of rates, or tax,

1 other than an ad valorem tax, imposed by a special purpose governmental
2 entity.

3 (b) "Fee" shall not include the following charges imposed by special purpose
4 governmental entities that provide utility services:

5 1. Any fuel cost adjustment that is:

6 a. Made pursuant to an agreement with a power supplier;

7 b. Amended by the power supplier based on the variable cost of fuel;
8 and

9 c. Passed through to the consumer by the utility pursuant to the
10 agreement between the utility and the power supplier;

11 2. Any power or energy cost adjustment implemented pursuant to a duly
12 adopted base rate that provides for the periodic adjustment of a
13 component of the rate, including any fuel costs or transmission costs, in
14 accordance with the formula or conditions set forth in the base rate; or

15 3. Any environmental control cost adjustments or surcharges implemented
16 pursuant to a duly adopted base rate that provides for the periodic
17 adjustment of a component of the rate in accordance with a formula or
18 conditions set forth in the base rate;

19 (6) (a) "Private entity" means any entity whose sole source of public funds is from
20 payments pursuant to a contract with a city, county, or special purpose
21 governmental entity, including funds received as a grant or as a result of a
22 competitively bid procurement process.

23 (b) "Private entity" does not include any entity:

24 1. Created, wholly or in part, by a city, county, or combination of cities
25 and counties to perform one (1) or more of the types of public services
26 listed in subsection (9)(c) of this section; or

27 2. Governed by a board, council, commission, committee, authority, or

1 corporation with any member or members who are appointed by the
2 chief executive or governing body of a city, county, or combination of
3 cities and counties, or whose voting membership includes governmental
4 officials who serve in an ex officio capacity;

5 (7) "Public funds" means any funds derived from the levy of a tax, fee, assessment, or
6 charge, or the issuance of bonds by the state or a city, county, or special purpose
7 governmental entity;

8 (8) "Registry" means the online central registry and reporting portal established
9 pursuant to KRS 65A.020; and

10 (9) (a) "Special purpose governmental entity" or "entity" means any agency,
11 authority, or entity created or authorized by statute which:

- 12 1. Exercises less than statewide jurisdiction;
- 13 2. Exists for the purpose of providing one (1) or a limited number of
14 services or functions;
- 15 3. Is governed by a board, council, commission, committee, authority, or
16 corporation with policy-making authority that is separate from the state
17 and the governing body of the city, county, or cities and counties in
18 which it operates; and
- 19 4. a. Has the independent authority to generate public funds; or
20 b. May receive and expend public funds, grants, awards, or
21 appropriations from the state, from any agency, or authority of the
22 state, from a city or county, or from any other special purpose
23 governmental entity.

24 (b) "Special purpose governmental entity" shall include entities meeting the
25 requirements established by paragraph (a) of this subsection, whether the
26 entity is formed as a nonprofit corporation under KRS Chapter 273, pursuant
27 to an interlocal cooperation agreement under KRS 65.210 to 65.300, or

1 pursuant to any other provision of the Kentucky Revised Statutes.

2 (c) Examples of the types of public services that may be provided by special
3 purpose governmental entities include but are not limited to the following:

- 4 1. Ambulance, emergency, and fire protection services;
- 5 2. Flood control, drainage, levee, water, water conservation, watershed,
6 and soil conservation services;
- 7 3. Area planning, management, community improvement, and community
8 development services;
- 9 4. Library services;
- 10 5. Public health, public mental health, and public hospital services;
- 11 6. Riverport and airport services;
- 12 7. Sanitation, sewer, waste management, and solid waste services;
- 13 8. Industrial and economic development;
- 14 9. Parks and recreation services;
- 15 10. Construction, maintenance, or operation of roads and bridges;
- 16 11. Mass transit services;
- 17 12. Pollution control;
- 18 13. Construction or provision of public housing, except as set out in
19 paragraph (d)8. of this subsection;
- 20 14. Tourism and convention services; and
- 21 15. Agricultural extension services.

22 (d) "Special purpose governmental entity" shall not include:

- 23 1. Cities;
- 24 2. Counties;
- 25 3. School districts;
- 26 4. Private entities;
- 27 5. Chambers of commerce;

- 1 6. Any incorporated entity that:
- 2 a. Provides utility services;
- 3 b. Is member-owned; and
- 4 c. Has a governing body whose voting members are all elected by the
- 5 membership of the entity;
- 6 7. Any entity whose budget, finances, and financial information are fully
- 7 integrated with and included as a part of the budget, finances, and
- 8 financial reporting of the city, county, or cities and counties in which it
- 9 operates;
- 10 8. Federally regulated public housing authorities established pursuant to
- 11 KRS Chapter 80 that receive no more than twenty percent (20%) of their
- 12 total funding for any fiscal year from nonfederal fees, not including
- 13 rental income; or
- 14 9. a. Any fire protection district or volunteer fire department district
- 15 operating under KRS Chapter 75 with the higher of annual receipts
- 16 from all sources or annual expenditures of less than **one hundred**
- 17 **fifty thousand dollars (\$150,000)**~~one hundred thousand dollars~~
- 18 (\$100,000)]; or
- 19 b. Any fire department incorporated under KRS Chapter 273.

20 ➔Section 3. KRS 95A.055 is amended to read as follows:

21 (1) As used in this section:

- 22 (a) "Fire district" means any fire protection district or volunteer fire department
- 23 district operating under KRS Chapter 75 with the higher of annual receipts
- 24 from all sources or annual expenditures of less than **one hundred fifty**
- 25 **thousand dollars (\$150,000)**~~one hundred thousand dollars (\$100,000)]; and~~
- 26 (b) "Nonprofit fire department" means any fire department incorporated under
- 27 KRS Chapter 273.

- 1 (2) If a fire district's annual revenues or expenditures equals or exceeds one hundred
2 fifty thousand dollars (\$150,000)~~one hundred thousand dollars (\$100,000)~~ for
3 two (2) consecutive fiscal years, then the fire district shall, for the next reporting
4 period and any subsequent reporting period for which it exceeds that amount, be
5 considered a special purpose governmental entity as defined in KRS 65A.010 and
6 shall comply with KRS Chapter 65A until its annual revenues or expenditures are
7 less than one hundred fifty thousand dollars (\$150,000)~~one hundred thousand~~
8 ~~dollars (\$100,000)~~, whereupon it may again qualify as a fire department under this
9 section.
- 10 (3) Each fire district shall for each fiscal year beginning on and after July 1, 2016,
11 annually submit to the commission the information required by this section. The
12 information shall be submitted at the time and in the form and format required by
13 the commission. The information submitted shall include at a minimum the
14 following:
- 15 (a) Administrative information:
- 16 1. The name, address, and, if applicable, the term and appointing authority
17 for each board member of the governing body of the fire district;
 - 18 2. The fiscal year of the fire district;
 - 19 3. The Kentucky Revised Statute and, if applicable, the local government
20 ordinance under which the fire district was established; the date of
21 establishment; the establishing entity; and the statute or statutes, local
22 government ordinance, or interlocal agreement under which the fire
23 district operates, if different from the statute or statutes, ordinance, or
24 agreement under which it was established;
 - 25 4. The mailing address and telephone number and, if applicable, the
26 website~~Web site~~ uniform resource locator (URL) of the fire district;
 - 27 5. The operational boundaries and service area of the fire district and the

- 1 services provided by the fire district;
- 2 6. A listing of the taxes or fees imposed and collected by the fire district,
3 including the rates or amounts charged for the reporting period and the
4 statutory or other source of authority for the levy of the tax or fee;
- 5 7. The primary contact for the fire district for purposes of communication
6 with the commission;
- 7 8. The code of ethics that applies to the fire district, and whether the fire
8 district has adopted additional ethics provisions;
- 9 9. A listing of all federal, state, and local governmental entities that have
10 oversight authority over the fire district or to which the fire district
11 submits reports, data, or information; and
- 12 10. Any other related administrative information required by the
13 commission; and
- 14 (b) Financial information including budgets and financial expenditure
15 information that are designed to ensure that all public funds received by the
16 fire districts are being responsibly used. The commission shall, through the
17 promulgation of an administrative regulation, establish the specific financial
18 information that shall be filed to meet the requirements of this paragraph.
- 19 (4) The commission shall review the reports required for fire districts by this section
20 and, if the commission finds that a report submitted does not comply with the
21 requirements established by this section and regulations promulgated hereunder, the
22 commission shall notify the fire district in writing. The notification shall include a
23 description of the specific deficiencies identified, and shall describe the process the
24 fire district shall follow to correct the deficiencies, including the time within which
25 a response must be provided.
- 26 (5) The commission shall ensure that every fire district or nonprofit fire department
27 shall at least once every twelve (12) months be subject to a financial review that

1 shall include procedures developed by the commission and approved by the Auditor
2 of Public Accounts in advance. Subsequent changes to these procedures shall also
3 be approved by the Auditor of Public Accounts prior to the period in which they are
4 performed.

5 (6) The commission may require any fire district or nonprofit fire department with the
6 higher of annual receipts from all sources or annual expenditures equal to or greater
7 than **one hundred fifty thousand dollars (\$150,000)**~~one hundred thousand dollars~~
8 ~~(\$100,000)]~~ but less than **seven hundred thousand dollars (\$700,000)**~~five hundred~~
9 ~~thousand dollars (\$500,000)]~~ to once every four (4) years be subject to an
10 independent audit in the manner specified in KRS 65A.030(2).

11 (7) The commission shall ensure that every fire district or nonprofit fire department
12 with the higher of annual receipts from all sources or annual expenditures equal to
13 or greater than **seven hundred thousand dollars (\$700,000)**~~five hundred thousand~~
14 ~~dollars (\$500,000)]~~ for two (2) consecutive fiscal years is audited annually in the
15 manner specified in KRS 65A.030(2) until its annual revenues or expenditures are
16 less than **seven hundred thousand dollars (\$700,000)**~~five hundred thousand~~
17 ~~dollars (\$500,000)]~~.

18 (8) The Auditor of Public Accounts may, upon request, examine and review the reports
19 and all related work papers and documents relating to a financial review or audit
20 under this section.

21 (9) If a fire district or nonprofit fire department fails to comply with this section or
22 KRS 75.430, then the commission may withhold:

23 (a) Incentive pay to qualified firefighters under KRS 95A.250;

24 (b) Volunteer fire department aid, funds used to purchase workers' compensation
25 insurance for fire districts and nonprofit fire departments, and the low-interest
26 loans under KRS 95A.262;

27 (c) Funds from the thermal vision grant program under KRS 95A.400 to

1 95A.440; and

2 (d) Any other funds that the commission controls.

3 (10) The commission shall report any irregularities relating to the finances or operations
4 of a fire district or nonprofit fire department that it identifies to the Attorney
5 General and Auditor of Public Accounts, and the commission may notify any other
6 public official with jurisdiction over fire districts or nonprofit fire departments for
7 further investigation and follow-up.

8 (11) The commission may prescribe corrective actions to bring fire districts or nonprofit
9 fire departments that are, as of July 15, 2016, not in compliance with KRS Chapter
10 65A into compliance with this section. Any sanctions imposed by the Department
11 for Local Government prior to July 15, 2016, shall be lifted upon notification by the
12 commission to the department that the fire district or nonprofit fire department in
13 question has complied with the corrective actions prescribed by the commission.

14 (12) The information reported by fire districts or nonprofit fire departments under this
15 section shall be considered public records under KRS 61.872 to 61.884. The
16 commission shall prominently post on its website~~[Web site]~~ the availability of the
17 information required by this section and shall provide contact information and
18 procedures for obtaining copies of the information.

19 (13) The commission shall promulgate administrative regulations in accordance
20 with~~[under]~~ KRS Chapter 13A ~~[as soon as practicable after July 15, 2016,]~~to
21 implement this section and KRS 75.430.

22 (14) ~~[By October 1, 2016, and]~~On or before~~[each]~~ October 1 of each year~~[thereafter]~~,
23 the commission shall file an annual report with the Legislative Research
24 Commission detailing the compliance of the fire districts or nonprofit fire
25 departments required to report under this section with subsection (3) of this section.
26 The Legislative Research Commission shall refer the report to the Interim Joint
27 Committee on Local Government for review.

1 ➔Section 4. This Act takes effect July 1, 2026.