

1 AN ACT relating to municipal financial reporting.

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

3 ➔Section 1. KRS 91A.020 is amended to read as follows:

4 (1) Each city shall keep its accounting records and render financial reports in such a
5 way as to:

6 (a) Determine compliance with statutory provisions;~~and~~

7 (b) Determine fairly and with full disclosure the financial operations of
8 constituent funds and account groups of the city; ***and***

9 ***(c) Conform***~~[in conformity]~~ with generally accepted governmental accounting
10 principles, ***except cities receiving and expending, from all sources and for***
11 ***all purposes, less than fifteen million dollars (\$15,000,000) may choose to***
12 ***conform with the cash, modified accrual, or the budgetary basis of***
13 ***accounting.***

14 (2) Municipal accounting systems shall be organized and operated on a fund basis.

15 ➔Section 2. KRS 91A.040 is amended to read as follows:

16 (1) Except as provided in subsections (2) and (3) of this section ***and Section 4 of this***
17 ***Act,*** each city shall, after the close of each fiscal year, cause each fund of the city to
18 be audited by the Auditor of Public Accounts or a certified public accountant. The
19 audit shall be completed by March 1 immediately following the fiscal year being
20 audited. The city shall forward an electronic copy of the audit report to the
21 Department for Local Government for information purposes by no later than April 1
22 immediately following the fiscal year being audited.

23 (2) In lieu of the annual audit requirements in subsection (1) of this section, a city with
24 a population equal to or less than three thousand (3,000) based upon the most recent
25 federal decennial census may elect to have an audit performed every other fiscal
26 year in the following manner:

27 (a) ***For a city that is not performing an agreed-upon engagement procedure***

- 1 under Section 4 of this Act, after the close of each odd-numbered fiscal year,
2 the city shall for that odd-numbered year cause each fund of the city to be
3 audited by the Auditor of Public Accounts or a certified public accountant.
4 The audits shall be completed by March 1 immediately following the fiscal
5 year to be audited. The city shall forward an electronic copy of the audit
6 report to the Department for Local Government for information purposes by
7 no later than April 1 immediately following the fiscal year being audited; and
- 8 (b) After the close of each even-numbered fiscal year, the city shall not be
9 required to complete an annual audit but shall forward an electronic copy of
10 its financial statement prepared in accordance with KRS 424.220 to the
11 Department for Local Government by no later than October 1 immediately
12 following the close of the even-numbered fiscal year.
- 13 (3) Any city, which for any fiscal year receives and expends, from all sources and for
14 all purposes, less than five hundred thousand dollars (\$500,000), and which has no
15 long-term debt, whether general obligation or revenue debt, shall not be required to
16 audit each fund of the city for that particular fiscal year. In addition, each city
17 exempted in accordance with this subsection shall:
- 18 (a) Annually prepare a financial statement in accordance with KRS 424.220 and
19 shall, not later than October 1 following the conclusion of the fiscal year,
20 forward one (1) electronic copy to the Department for Local Government for
21 information purposes; and
- 22 (b) If exempted under this subsection for more than four (4) consecutive fiscal
23 years after July 1, 2022, have performed an agreed-upon
24 procedures~~[prepared an attestation]~~ engagement covering the fifth~~[fourth]~~
25 fiscal year in which the city qualified for an exemption under this subsection.
26 An agreed-upon procedures~~[attestation]~~ engagement required under this
27 paragraph shall be completed in accordance with subsections (3) to (9) of

1 Section 4 of this Act and any other requirements established by the Auditor
2 of Public Accounts through the promulgation of administrative regulations
3 in accordance with KRS Chapter 13A~~[completed pursuant to this subsection~~

4 shall be:

5 1. ~~Prepared by an independent certified public accountant or by the~~
6 ~~Auditor of Public Accounts pursuant to a contract with the city using~~
7 ~~generally accepted attestation standards as promulgated by the American~~
8 ~~Institute of Certified Public Accountants and any additional procedures~~
9 ~~established by the Department for Local Government through~~
10 ~~administrative regulation;~~

11 2. ~~Completed by no later than March 1 immediately following the~~
12 ~~conclusion of the fiscal year in which in the attestation engagement is~~
13 ~~required;~~

14 3. ~~Submitted to the Department for Local Government as one (1) electronic~~
15 ~~copy no later than April 1 after its completion;~~

16 4. ~~Advertised to the public within thirty (30) days of its completion by~~
17 ~~causing the publication of a legal display advertisement of not less than~~
18 ~~six (6) column inches in a newspaper qualified under KRS 424.120~~
19 ~~stating that the attestation has been prepared and copies have been~~
20 ~~provided to each local newspaper of general circulation, each news~~
21 ~~service, and each local radio and television station which has on file~~
22 ~~with the city a written request to receive copies of financial statements~~
23 ~~under KRS 424.220. Any city advertising under this subparagraph shall~~
24 ~~be exempt from publishing its financial statement under KRS~~
25 ~~424.220(6)(b) for any year in which it is required to have an attestation~~
26 ~~engagement completed; and~~

27 5. ~~Provided to the Auditor of Public Accounts upon request for review of~~

1 ~~the final report and all related work papers and documents regarding the~~
2 ~~attestation engagement~~].

- 3 (4) If a city is required by another provision of law to audit its funds more frequently or
4 more stringently than is required by this section, the city shall also comply with the
5 provisions of that law.
- 6 (5) The Department for Local Government shall, upon request, make available
7 electronic copies of the audit reports and financial statements received by it under
8 subsections (1) to (3) of this section to the Legislative Research Commission to be
9 used for the purposes of KRS 6.955 to 6.975 or to the Auditor of Public Accounts.
- 10 (6) Each city required ~~by this section~~ to conduct an ~~annual or biennial~~ audit **under**
11 **subsection (1) or (2) of this section** shall enter into a written contract with an
12 auditor, who shall be a certified public accountant or the Auditor of Public
13 Accounts. The contract shall set forth all terms and conditions of the agreement
14 which shall include but not be limited to requirements that:
- 15 (a) The auditor be employed to examine the basic financial statements, which
16 shall include the **financial statements prepared in accordance with the basis**
17 **of accounting used by the city** ~~government wide and fund financial~~
18 ~~statements~~];
- 19 (b) The auditor shall include in the ~~annual or biennial~~ city audit report an
20 examination of local government economic assistance funds granted to the
21 city under KRS 42.450 to 42.495. The auditor shall include a certification
22 with the ~~annual or biennial~~ audit report that the funds were expended for the
23 purpose intended;
- 24 (c) All audit information be prepared in accordance with generally accepted
25 governmental auditing standards which include tests of the accounting records
26 and auditing procedures considered necessary in the circumstances. Where the
27 audit is to cover the use of state or federal funds, appropriate state or federal

- 1 guidelines shall be utilized;
- 2 (d) The auditor shall prepare a ~~typed~~ printed report embodying:
- 3 1. The basic financial statements and accompanying supplemental and
- 4 required supplemental information;
- 5 2. The auditor's opinion on the basic financial statements or reasons why
- 6 an opinion cannot be expressed; and
- 7 3. Findings required to be reported as a result of the audit;
- 8 (e) The completed audit and all accompanying documentation shall be presented
- 9 to the city legislative body at a regular or special meeting; and
- 10 (f) Any contract with a certified public accountant for an audit shall ***provide that***
- 11 ~~require the accountant to forward a copy of the audit report and management~~
- 12 ~~letters to the Auditor of Public Accounts upon request of the city or the~~
- 13 ~~Auditor of Public Accounts, and~~ the Auditor of Public Accounts shall have
- 14 the right to review the certified public accountant's work papers upon request.
- 15 (7) A copy of an audit report which meets the requirements of this section shall be
- 16 considered satisfactory and final in meeting any official request to a city for
- 17 financial data, except for statutory or judicial requirements, or requirements of the
- 18 Legislative Research Commission necessary to carry out the purposes of KRS 6.955
- 19 to 6.975.
- 20 (8) Each city shall, within thirty (30) days after the presentation of an audit to the city
- 21 legislative body, publish an advertisement in accordance with KRS Chapter 424
- 22 containing:
- 23 (a) The auditor's opinion letter;
- 24 (b) ***A budget-to-actual comparison schedule for the general fund*** ~~The~~
- 25 ~~"Budgetary Comparison Schedules Major Funds," which shall include the~~
- 26 ~~general fund and all major funds~~];
- 27 (c) A statement that a copy of the complete audit report, including financial

1 statements and supplemental information, is on file at city hall and is available
2 for public inspection during normal business hours;

3 (d) A statement that any citizen may obtain from city hall a copy of the complete
4 audit report, including financial statements and supplemental information, for
5 his or her personal use; and

6 (e) A statement which notifies citizens requesting a personal copy of the city
7 audit report that they will be charged for duplication costs at a rate that shall
8 not exceed twenty-five cents (\$0.25) per page; ~~and~~

9 ~~(f) A statement that copies of the financial statement prepared in accordance with~~
10 ~~KRS 424.220, when a financial statement is required by KRS 424.220, are~~
11 ~~available to the public at no cost at the business address of the officer~~
12 ~~responsible for preparation of the statement].~~

13 (9) Any resident of the city or owner of real property within the city may bring an
14 action in the Circuit Court to enforce the provisions of this section. Any person who
15 violates any provision of this section shall be fined not less than fifty dollars (\$50)
16 nor more than five hundred dollars (\$500). In addition, any officer who fails to
17 comply with any of the provisions of this section shall, for each failure, be subject
18 to a forfeiture of not less than fifty dollars (\$50) nor more than five hundred dollars
19 (\$500), in the discretion of the court, which may be recovered only once in a civil
20 action brought by any resident of the city or owner of real property within the city.
21 The costs of all proceedings, including a reasonable fee for the attorney of the
22 resident or property owner bringing the action, shall be assessed against the
23 unsuccessful party.

24 (10) In the event of extenuating circumstances that prevent a city from completing and
25 submitting a required audit or financial statement in compliance with the applicable
26 deadlines in subsections (1) to (3) of this section, the city may submit a written
27 request for an extension of time to the Department for Local Government on a form

1 prescribed by the Department for Local Government. The Department for Local
2 Government shall approve the request if, in the judgment of the Department for
3 Local Government, the request is warranted by extenuating circumstances beyond
4 the control of the city or other factors that justify the city's noncompliance with the
5 required deadlines. The Department for Local Government may consider any
6 evidence it deems appropriate, including but not limited to proof of the city's
7 progress towards compliance. Extensions granted under this subsection shall not
8 exceed eighteen (18) months from the original due date of the audit or financial
9 statement. If the Department for Local Government approves an extension for a city
10 and the city fails to complete and submit the required audit or financial statement in
11 compliance with that extended deadline, then the provisions of subsection (11) of
12 this section shall apply.

13 (11) If a city fails to complete an audit or financial statement and submit it to the
14 Department for Local Government as required in subsections (1) to (3) and (10) of
15 this section, the Department for Local Government shall notify the Finance and
16 Administration Cabinet that the city has failed to comply with the audit
17 requirements of this section~~[,]~~ and that any funds in the possession of any agency,
18 entity, or branch of state government shall be withheld from the city until further
19 notice. The Department for Local Government shall immediately notify the Finance
20 and Administration Cabinet when the city complies with the requirements of
21 subsections (1) to (3) and (10) of this section for all prior fiscal years it has failed to
22 comply with the audit requirements of this section, and the Finance and
23 Administration Cabinet shall direct the reinstatement of payments to the city,
24 including any funds that were withheld due to the noncompliance. This subsection
25 shall not be interpreted or construed to permit the state to withhold any
26 nondiscretionary payments to a city that are due the city for the provision of
27 services by the city to the state or any of its agencies, including for the use of city

1 utilities.

2 (12) Within a reasonable time after the completion of a special audit or examination
3 conducted pursuant to KRS 43.050, the Auditor shall bill the city for the actual
4 expense of the audit or examination conducted. The actual expense shall include the
5 hours of work performed on the audit or examination as well as reasonable
6 associated costs, including but not limited to travel costs. The bill submitted to the
7 city shall include a statement of the hourly rate, total hours, and total costs for the
8 entire audit or examination.

9 **(13) A city shall provide a copy of any audit report completed pursuant to this section**
10 **to the Auditor of Public Accounts upon request.**

11 ➔Section 3. KRS 424.220 is amended to read as follows:

12 (1) Excepting officers who are exempted under subsection (8) of this section, every
13 public officer of any city, county, or district less than a county, or of any board,
14 commission, or other authority of a city, county, or district whose duty it is to
15 collect, receive, have the custody, control, or disbursement of any funds collected
16 from the public in any form shall, at the expiration of each fiscal year, prepare an
17 itemized, sworn statement of the funds collected, received, held, or disbursed by
18 him or her during the fiscal year just closed, unless he or she has complied with
19 KRS 424.230.

20 (2) The statement shall show:

21 (a) The total amount of funds collected and received during the fiscal year from
22 each individual source; and

23 (b) The total amount of funds disbursed during the fiscal year to each individual
24 payee. The list shall include only aggregate amounts to vendors exceeding one
25 thousand dollars (\$1,000).

26 (3) Only the totals of amounts paid to each individual as salary or commission and
27 public utility bills shall be shown. The amount of salaries paid to all nonelected

1 county employees shall be shown as lump-sum expenditures by category, including
 2 but not limited to road department, jails, solid waste, public safety, and
 3 administrative personnel.

4 (4) The financial reporting and publishing requirements for a school district are
 5 provided in KRS 160.463.

6 (5) The officer shall procure and include in or attach to the financial statement, as a part
 7 thereof, a certificate from the cashier or other proper officer of the banks in which
 8 the funds are or have been deposited during the past year, showing the balance, if
 9 any, of funds to the credit of the officer making the statement.

10 (6) To provide notice to the public that the city's financial statement has been
 11 completed as required by this section, ~~the~~

12 ~~(a) The appropriate officer of a city that has performed an audit under KRS~~
 13 ~~91A.040 for the fiscal year or years, including the appropriate officer of any~~
 14 ~~municipally owned electric, gas, or water system, shall publish the audit~~
 15 ~~report in accordance with KRS 91A.040(8); and~~

16 ~~(b) the~~ appropriate officer of a city that has not conducted an annual audit for the
 17 fiscal year under one (1) of the exceptions provided in KRS 91A.040(2) or (3)
 18 shall publish a legal display advertisement of not less than six (6) column
 19 inches in a newspaper qualified under KRS 424.120 that the statement
 20 required by subsection (1) of this section has been prepared and that copies
 21 have been provided to each local newspaper of general circulation, each news
 22 service, and each local radio and television station which has on file with the
 23 city a written request to be provided a statement. The advertisement shall be
 24 published within thirty (30)~~ninety (90)~~ days after the submission of the
 25 financial statement to the Department for Local Government under
 26 subsection (2)(b) or (3)(a) of Section 2 of this Act~~close of the fiscal year~~.

27 (7) To provide notice to the public that the county's financial statement has been

1 completed as required by this section, the appropriate officer of a county shall
 2 publish the county's audit, prepared in accordance with KRS 43.070 or 64.810, in
 3 the same manner that city audits are published in accordance with KRS 91A.040(8).

4 (8) The provisions of this section shall not apply to officers of:

5 (a) A city of the first class;

6 (b) A county containing a city of the first class;

7 (c) A consolidated local government;

8 (d) An urban-county government;

9 (e) A city with a population equal to or greater than twenty thousand (20,000)
 10 based upon the most recent federal decennial census;

11 (f) A city that has completed an audit pursuant to the provisions of subsection
 12 (1) or (2)(a) of Section 2 of this Act;

13 (g) A city that has completed an agreed-upon procedures engagement in
 14 accordance with Section 4 of this Act;

15 (h) A public agency or joint public agency of a:

16 1. City of the first class;

17 2. Consolidated local government; or

18 3. County containing a city of the first class; or

19 ~~(i)(g)~~ A school district of a:

20 1. City of the first class;

21 2. Consolidated local government; or

22 3. County containing a city of the first class.

23 ➔SECTION 4. A NEW SECTION OF KRS CHAPTER 91A IS CREATED TO
 24 READ AS FOLLOWS:

25 (1) Beginning with fiscal years on and after July 1, 2027, a city required to complete
 26 an audit pursuant to the provisions of Section 2 of this Act may elect to instead
 27 have an agreed-upon procedures engagement with either the Auditor of Public

1 Accounts or a certified public accountant under the provisions of this section.

2 (2) A city shall meet the following conditions in order to proceed with an agreed-
3 upon procedures engagement under this section for a particular fiscal year:

4 (a) Unless proceeding under subsection (9) of this section, the city shall have
5 complied with any of the applicable requirements under Section 2 of this
6 Act or this section in the immediately preceding fiscal year;

7 (b) The city has not been subject to a special examination from the Auditor of
8 Public Accounts during the immediately preceding fiscal year or during the
9 fiscal year to be audited;

10 (c) For the fiscal year subject to be audited, the city received and expended
11 from all sources and for all purposes less than fifteen million dollars
12 (\$15,000,000);

13 (d) The city is not required by any other provision of state or federal law to
14 perform an audit or examination more stringent than is required by this
15 section; and

16 (e) The city shall meet any other standards and requirements not in conflict
17 with this subsection that may be established by the Auditor of Public
18 Accounts through the promulgation of administrative regulations in
19 accordance with KRS Chapter 13A.

20 (3) An agreed-upon procedures engagement entered into by a city under this section
21 shall be conducted and governed under the American Institute of Certified Public
22 Accountants (AICPA) professional standards and any additional standards and
23 requirements established by administrative regulation promulgated in accordance
24 with KRS Chapter 13A by the Auditor of Public Accounts. Any agreed-upon
25 procedures engagement conducted for a city shall, at a minimum, examine and
26 report on:

27 (a) Reconciliation of cash, including the recalculation of year-end bank

- 1 reconciliations, confirmation of beginning and ending balances, and
2 verification that reconciled bank balances agree to fund cash balances in
3 the accounting system and financial statement;
4 (b) Confirmation of cash balances directly with any external financial
5 institutions;
6 (c) Fund balances and transfers;
7 (d) Inspection of investment holdings for compliance with applicable state law
8 and any policies adopted by the city;
9 (e) A statement of receipts and disbursements, including payroll disbursements;
10 (f) Identification of outstanding debt, including confirmation of beginning and
11 ending balances, any new debt issuance or payments, amortization
12 schedules, and compliance with debt terms;
13 (g) Verification that total expenditures do not exceed appropriations; and
14 (h) If applicable, an examination of local government economic assistance
15 funds granted to the city under KRS 42.450 to 42.495 to ensure the funds
16 were expended for the purposes intended.
17 (4) An agreed-upon procedures engagement performed under this section shall be
18 completed by March 1 immediately following the fiscal year being examined. A
19 copy of the agreed-upon procedures report shall be forwarded to the Department
20 for Local Government for informational purposes no later than April 1
21 immediately following the fiscal year being examined. The Department for Local
22 Government shall, upon request, make available electronic copies of reports
23 submitted to it under this section to the Legislative Research Commission to be
24 used for the purposes of KRS 6.955 to 6.975 and to the Auditor of Public
25 Accounts if the Auditor is not a party to the agreed-upon procedures engagement.
26 (5) Any city proceeding under this section to perform an agreed-upon procedures
27 engagement in lieu of an audit shall enter into a contract with the Auditor of

- 1 Public Accounts or a certified public accountant for the performance of that
2 agreed-upon procedures engagement. The contract's terms and conditions shall
3 include but not be limited to:
- 4 (a) The Auditor of Public Accounts or the certified public accountant complete
5 an agreed-upon procedures report in compliance with subsection (3) of this
6 section;
- 7 (b) The completed agreed-upon procedures report shall be presented to the city
8 legislative body at a regular or special meeting; and
- 9 (c) If the agreed-upon procedures engagement is completed by a certified
10 public accountant, that the Auditor of Public Accounts shall be allowed to
11 review the certified public accountant's work papers upon request.
- 12 (6) A copy of an agreed-upon procedures engagement report which meets the
13 requirements of this section shall be considered satisfactory and final in meeting
14 any official request to a city for financial data, except as may be required by the
15 Kentucky Revised Statutes, including those under KRS 6.955 to 6.975, and any
16 judicial requirements.
- 17 (7) An agreed-upon procedures engagement report completed under this section
18 shall be deemed sufficient to meet any state law or administrative regulation that
19 requires the submission or completion of an audit.
- 20 (8) Not later than thirty (30) days after the date on which the presentation of the
21 agreed-upon procedures engagement report has been made to the city, the city
22 shall publish an advertisement in accordance with KRS Chapter 424 that the
23 agreed-upon procedures engagement report has been completed for the city and
24 that:
- 25 (a) The complete report, along with supplemental information, is available for
26 inspection at city hall during normal business hours; and
- 27 (b) Any citizen may obtain from city hall a copy of the completed agreed-upon

1 procedures engagement report for personal use at a duplication cost not
2 exceeding twenty-five cents (\$0.25) per page.

3 (9) A city that is two (2) or more fiscal years behind in completing or reporting under
4 Section 2 or 3 of this Act may make an application to the Department for Local
5 Government to proceed under this section with a single agreed-upon procedures
6 engagement to bring the city into compliance for those fiscal years. The
7 Department for Local Government shall prescribe any requirements, conditions,
8 and other terms for using the process authorized under this subsection by
9 administrative regulation promulgated in accordance with KRS Chapter 13A.
10 Once completed, the Department for Local Government shall treat the city as
11 compliant with the requirements it had previously failed to meet under Section 2
12 or 3 of this Act.

13 (10) A city shall forward a copy of any agreed-upon procedures engagement report
14 completed pursuant to this section to the Auditor of Public Accounts upon
15 request.